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Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2004



REPORT LAYOUT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains the transmittal letter, state organization chart, and a list of principal state officials. The Financial Section includes the independent auditor's report, the management's discussion and analysis, the basic financial statements, and the combining statements and schedules. The Statistical Section includes fiscal, economic, and demographic information about the State.

INTERNET ACCESS

The Comprehensive Annual Report is available at the Department of Administration, Administrative and Financial Service Division's web site at:

www.state.mt.us/doa/afsd/cafr/cafr.asp

COVER

Gold Miners at Sluice Box
(Last Chance Gulch, Helena, MT)
Photo courtesy of Mark Curtis

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2004

Prepared By:

Department of Administration

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Penny Killham, Accounting Technician

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2004

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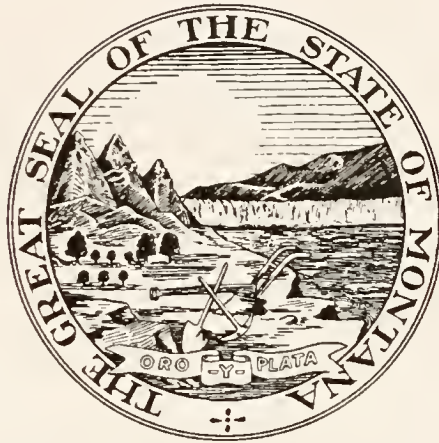
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INTRODUCTORY SECTION



DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE



JUDY MARTZ, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032
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PO BOX 200101
HELENA, MONTANA 59620-0101

December 10, 2004

To the Citizens, Governor and Members of the Legislature of the State of Montana:

In accordance with Section 17-2-110, Montana Code Annotated (MCA), I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2004. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

This CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes an organization chart for the State, a table of contents, and this transmittal letter. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body; and (1) the State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Housing Authority, Facility Finance Authority, State Compensation Insurance Fund (Old and New), Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System. These component units are discretely presented in the State's financial statements.

PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. With an area of 145,552 square miles, Montana is the nation's fourth largest state. With an estimated current population of 917,621, it is also one of the nation's most sparsely populated states. It is a vast land: a land including rolling plains, the Northern Rocky Mountains, two national parks, wheat farms and cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart on page 12, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets at regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its constitution, and its laws are administered by its executive branch officers and various boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the state's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and

natural resources for conversation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

ECONOMIC CONDITION AND OUTLOOK

Montana avoided most of the economic travails affecting the U.S. economy during 2001 - 2003 because its economic base is concentrated in agriculture, mining, wood products and other manufacturing, nonresident travel, and government. This is reflected in a much stronger State financial position at the end of fiscal year 2004. In the second quarter of 2004, Montana experienced the second highest per-capita income growth, on a percentage basis, in the U.S. This growth was supported by related second quarter 2004 income increases in almost all sectors of Montana's economy. Montana's income tax revenues increased as a result of this internal income growth and trends in the stock market and the level of U.S. interest rates. Montana corporate income tax revenues are affected by the overall profits of intra and interstate corporations. For a more in depth analysis of the impact of this growth on the state's financial position, the reader should refer to management's discussion and analysis and the financial statements contained in this document.

Montana's wheat and barley yields grew in 2004, with winter wheat yields reaching the highest level since 1993. Spring wheat yields are also expected to increase significantly. Overall winter wheat production fell slightly from 2003 to 2004 because of dry spring conditions that caused some farmers to abandon fields, but timely rains led to the increase in overall yield per acre. Because of these yield increases and expanded wheat acreage, Montana's overall wheat production is expected to increase by 22% to 174,300,000 bushels. Unfortunately for Montana farmers overall, U.S. and global wheat output grew during 2004, resulting in lower overall prices. As a result of larger overall production, the price for malting and feed barley are also down slightly. The cattle market was impacted midyear by the discovery of a case of BSE (bovine spongiform encephalopathy) that caused lower demand and a related reduction in prices. The impact of the case of BSE was short in duration, and the prices have since recovered to strong levels, bolstered by demand and dwindling supplies of beef, as cattle inventory numbers have fallen for seven consecutive years.

As of the end of calendar year 2003, Montana's manufacturing sector had continued its decline into a third straight year, but continued to employ about 25,000 workers earning almost \$870 million annually, producing about \$4 billion in output annually and accounting for 20% of Montana's economic base. The decreases in 2003 were primarily in the forest products, machinery, equipment and instruments, and primary metals sector. In the second quarter of 2004, Montana's manufacturing sector appears to be reversing this trend and has posted a 3.2% increase in earnings growth.

Prices for lumber and other wood products increased substantially over the last year. Despite the increase in lumber prices and a very strong demand, production decreased very slightly in Montana in 2003. Employment dropped off by 4.5% to 9,400 workers from the 2002 and 2001 levels of 9,900 workers with the closure of two major mills. Estimated total sales value of the State's primary wood and paper products in 2003 was \$970 million, up about \$30 million from 2002. Montana's estimated lumber production was 1.11 billion board feet in 2003, down from 1.14 billion board feet in 2002. In 2004, Montana's timber production is expected to rise, but there is not expected to be a corresponding increase in the related workforce. During the second quarter of 2004, the forest products industry posted a 1.3% earnings growth.

Primary estimates of nonresident travel to Montana in 2003 show a 3% increase over 2002 – to 9.9 million visitors. The visitor numbers for Glacier and Yellowstone national parks were mixed. Yellowstone Park posted a 1% increase in visitors; Glacier Park suffered a 13% decrease, back to the 2002 levels. Motel occupancy posted a slight decrease of 0.3% from the 2002 levels. Current estimates indicate that the travel industry will remain at approximately the same level in 2004. Nonresident travelers contribute to the tax base by paying the lodging tax, excise taxes such as those on gasoline, and indirectly by supporting employment in industries that pay corporate taxes and whose workers pay income, property, and other taxes. Travel expenditures in Montana totaled \$1.8 billion in 2003, which is a slight drop from the 2002 level. The full economic impact of nonresident travel is estimated at \$2.6 billion.

MAJOR INITIATIVES

In fiscal year 2004, the General Fund unreserved, undesignated fund balance increased over projections. The increase was primarily due to higher than expected revenues. Individual income and corporate tax collections, oil and gas production taxes, U.S. mineral royalties, estate taxes, and other revenues exceeded revenue forecasts. Receipts from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) did not flow into the General Fund, but were used to defray costs that would normally have been the responsibility of the fund, contributing significantly to the unanticipated increase in ending fund balance. More related information is contained in the management's discussion and analysis section of the CAFR.

A major initiative that occurred in the past year was the expenditure of the \$50 million dollars received under the JGTRRA. These funds were used to provide essential government services, cover costs incurred by the State to comply with any unfunded federal mandates, and to fund expenditures “permitted under the most recently approved budget for the state”, not for new programs.

Through November 8, 2004, the State of Montana has obligated a total of \$49,848,031 JGTRRA funds, leaving a balance of \$151,969. The obligation of these funds falls into three basic categories: disaster funding (fires, floods, and winter storms), Northwestern Energy (NWE) bankruptcy costs, and other allocations made by the Governor. A breakdown of the obligations is provided in the table below.

Jobs and Growth Tax Relief Reconciliation Act of 2003

<u>Federal Allocation</u>	<u>\$50,000,000</u>
<u>State Disbursements</u>	
Department of Natural Resources and Conservation - Fires	\$34,328,563
Department of Military Affairs – Fires and Winter Storm	<u>3,151,200</u>
Subtotal Disaster Funding	<u>\$37,479,763</u>
Public Service Commission – NWE Bankruptcy	\$354,685
Department of Justice – NWE Bankruptcy	<u>712,385</u>
Subtotal NWE Funding	<u>\$ 1,067,070</u>
Department of Public Health & Human Services	\$ 4,014,000
Long-Range Building Program	583,121
K-12	2,816,046
Higher Education	2,700,000
Department of Corrections	1,000,000
Other	<u>188,031</u>
Subtotal General Government	<u>\$11,301,198</u>
Total Biennial Disbursements	<u>\$49,848,031</u>
Federal Funds Available	<u><u>\$ 151,969</u></u>

The most significant expenditure from these funds was the funding of forest fire suppression. These funds were critical to Montana’s ability to address these fires in tight budget times.

FINANCIAL INFORMATION

Montana's Statewide Budgeting, Accounting and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are computer-edited.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority and/or available cash. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Fund Balance

The unreserved, undesignated fund balance of the General Fund increased from \$ 43 million at June 30, 2003, to \$ 133 million at June 30, 2004. This represents an increase of \$ 90 million, or 209%.

Pension Trust Fund Operations

The State contributes to eight retirement systems and is the administrator of two additional systems. The two largest systems, in terms of dollars contributed and employees covered, are the Public Employees Retirement System - Defined Benefit Retirement Plan and the Teachers Retirement System. Montana implemented GASB Statement 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined contribution Plans and GASB Statement 27 - Accounting for Pensions by State and Local Governmental Employers in fiscal year 1996.

The 1997 Legislature enacted legislation that establishes a guaranteed annual benefit adjustment (GABA) for enrolled members or surviving beneficiaries under each of the statewide public employee retirement systems. The annual maximum adjustment of 3% begins 36 months after a beneficiary's initiation date. The benefit adjustment, when combined with other benefit adjustments already in law, must equal a maximum of 3% per year. The GABA automatically covers beneficiaries in the retirement systems for public employees, sheriffs, and game wardens. Beneficiaries in the retirement systems for highway patrol officers, municipal police officers, firefighters unified, and judges may choose to be covered by GABA, or by benefits adjustment mechanisms already in place. The legislation establishing the GABA also provides a mechanism to actuarially fund the Judges Retirement System.

The 1999 Legislature enacted legislation that also establishes a guaranteed annual benefit adjustment (GABA) for certain benefit recipients in the Teachers Retirement System. A benefit recipient is eligible for the maximum benefit adjustment of 3% if the retiree's most recent retirement effective date is at least 36 months prior to January 1 of the year in which the adjustment is to be made.

Cash Management

The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments have sole authority to invest state funds. The Board operates under the "prudent person principle" which requires the Board to (1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; (2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and (3) discharge duties solely in the interest of, and for the benefit of, the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and higher education funds only), commercial paper, bankers acceptances, interest bearing deposits in Montana financial institutions, real estate, and any other investment in a Montana business that continues existing jobs or creates new jobs. These investments are subject to statutory restrictions for quality and size of holdings.

Unless otherwise provided by law, treasury cash is pooled for investment regardless of the fund from which it is deposited, and the pool investment earnings are credited to the General Fund. The Board reported total investment income from investments under its management of \$466 million, an increase of 21% from the \$385.1 million earned last year. The book value of Board-managed investments increased by approximately \$457 million, or 5.4% to \$9 billion at fiscal year-end 2004. The Board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

Risk Management

Wage loss and medical expense benefits for injured state employees, excluding the Montana University System, are provided by the State Compensation Insurance Fund (State Fund). The State Fund is a nonprofit, independent public corporation that is managed and controlled by a seven-member board of directors. The Governor appoints the board members for four-year terms. Funding is primarily derived from the premiums paid by policyholders.

The Montana University System Workers Compensation Program provides self-insured workers compensation coverage for employees of the Montana University System. The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000.

The State maintains self-insurance plans for employee comprehensive medical, prescription drug and dental coverage, and state property. Under the State Employee Group Benefits Plan, the State assumes all the risk for claims incurred by plan members including state employees, elected officials, retirees and their dependents with the following exceptions: the Vision Service Plan (VSP) Insurance Company insures vision care services; the Standard (Standard) Life Insurance Company insures life, AD&D, and long-term disability coverage; and UNUM Life Insurance Company insures the long-term care coverage offered to participants. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement System and self-payment.

The Montana University System (MUS) Group Benefits Plan offers medical, dental, life, and vision insurance coverage to employees of the Montana University System, the community colleges, and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for a voluntary vision plan administered by VSP serving employees, retirees and their dependents and life insurance administered by Standard. Blue Cross/Blue Shield is the claims administrator for the self-insured indemnity plan. The plan includes three self-insured HMOs that are administered by Blue Cross, New West Health Services, and Peak. Managed Care Montana (APS) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management, and medical necessity review.

The State's comprehensive property/casualty insurance plan provides coverage for accidental death/dismemberment of volunteers (Montana University System), automobile liability, automobile physical damage, aviation (i.e., aircraft and airports), boilers and machinery, crime (i.e., faithful performance, fidelity, theft, destruction, and electronic fraud), fine arts, foster care, general liability, inland marine (property in-transit), state-administered foreclosure housing units, and other miscellaneous risks. Commercial excess property insurance is purchased to insure against catastrophic losses, with deductibles ranging from \$10,000 per occurrence to \$1,000,000 per occurrence. Coverage includes auto physical damage, aircraft hull, boilers and machinery, fine arts, crime, and foster care with over \$2.2 billion of state leased/owned or specialty buildings, contents, and other risk insured to \$250,000,000 per occurrence (various sub limits and coverage restrictions apply). The State is entirely self-funded for auto liability and general liability, subject to the terms and conditions of the Montana Tort Claims Act (§2-9-305, MCA). The state's statutory caps are set by the Legislature at \$750,000 per claim/\$1,500,000 per occurrence (§2-9-108, MCA). Premiums for the plan are collected from all state agencies, including component units, and costs are allocated based upon exposure and loss experience.

INDEPENDENT AUDIT

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State's Legislative Audit Division. The Legislative Auditor is appointed by and reports to the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2004.

CERTIFICATE OF ACHIEVEMENT

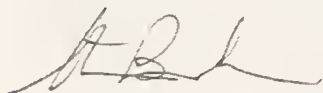
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the fifteenth year out of sixteen years that the State received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program requirements; we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Accounting Bureau and the cooperation of accounting personnel at the individual state agencies. I would like to express my appreciation to the Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of Montana in a professionally responsible and progressive manner.

Respectfully submitted,



Steve Bender, Acting Director
Department of Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Montana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



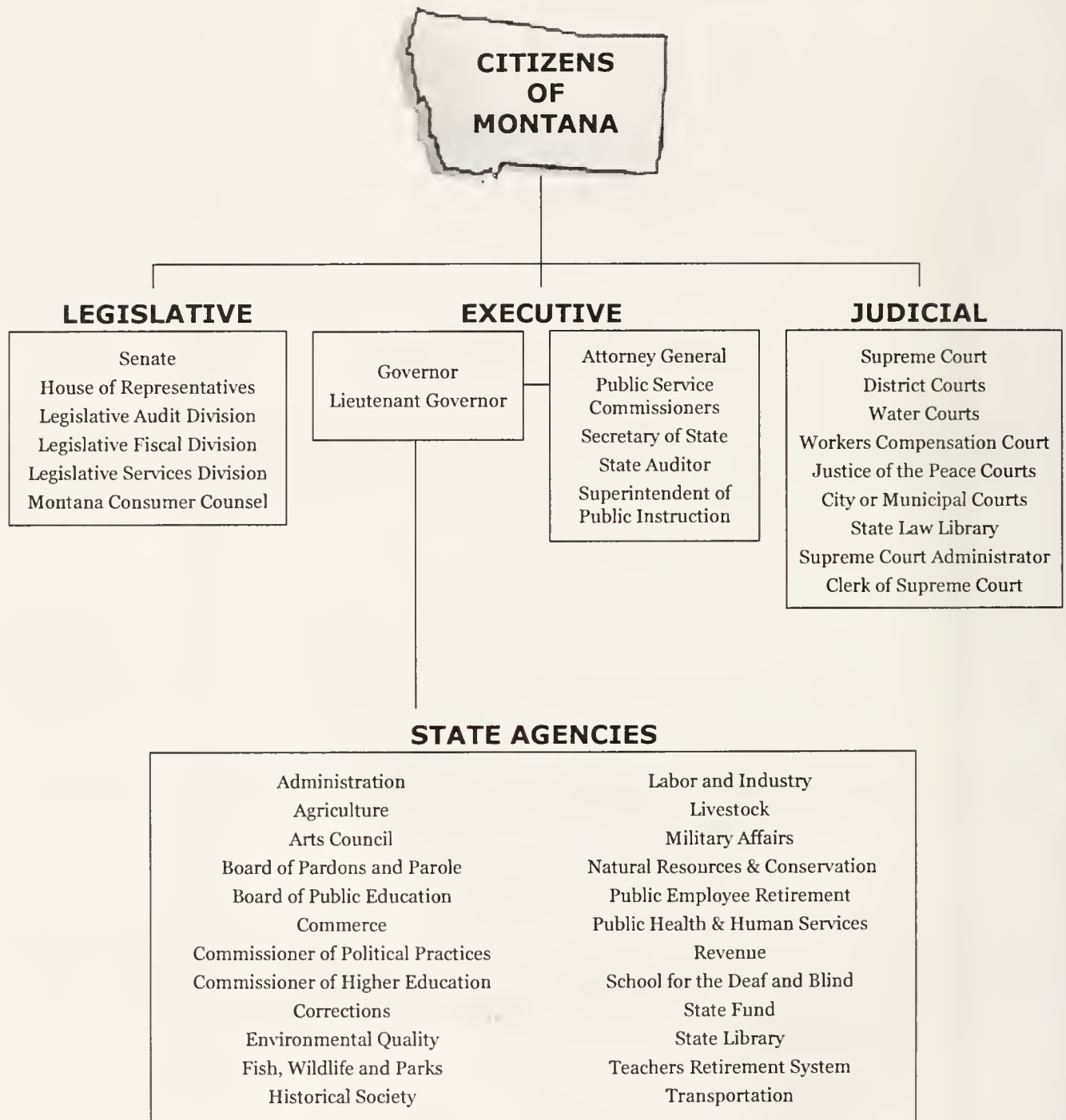
A handwritten signature in cursive script, reading "Nancy L. Ziehlke".

President

A handwritten signature in cursive script, reading "Jeffrey R. Enen".

Executive Director

STATE OF MONTANA ORGANIZATION CHART



State of Montana
SELECTED STATE OFFICIALS

EXECUTIVE

Judy Martz

Governor

Karl Ohs

Lieutenant Governor

JUDICIAL

Karla Gray

Chief Justice

LEGISLATIVE

Bob Keenan

President of the Senate

Doug Mood

Speaker of the House

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FINANCIAL SECTION



LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2004, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.07 and 1.55 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.04 and 0.10 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 10.51 and 5.69 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

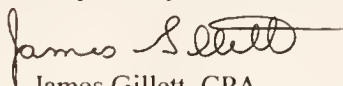
Management's Discussion and Analysis and the Budgetary Comparison Schedule listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements and Individual Fund Statements and Schedules listed in the table of contents are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated November 29, 2004, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. It is included in the Legislative Auditor's separately issued report (04-01) on the State's basic financial statements.

The Introductory and Statistical Section listed in the table of contents were not audited by us, and accordingly, we express no opinion on them.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2004 by \$4.6 billion (reported as net assets) compared with \$4.3 billion at the end of fiscal year 2003. Of this amount, \$238 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$874 million compared with \$643.3 million at fiscal year 2003.

Fund Highlights

As of the close of fiscal year 2004, the State's governmental funds reported combined ending fund balances of \$2.3 billion compared with \$2.2 billion at fiscal year 2003. Of this amount, \$66.6 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.2 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$132.9 million compared with \$43.1 million in fiscal year 2003, which is a increase of \$89.8 million (or 208.4%).

The State's business-type activity funds reported net assets at the close of fiscal year 2004 in the amount of \$236.3 million compared with the fiscal year-end 2003 net assets of \$230.6 million. \$221.4 million of the business-type activity fund equity was restricted at fiscal year-end 2004 leaving an unrestricted balance of \$14.9 million. This represents a \$4.4 million (or 22.8%) decrease from the fiscal year-end 2003 business-type activity fund unrestricted net asset balance of 19.3 million.

Long-term Debt

The State's total bonds and notes payable for governmental activities decreased from \$330.8 million in fiscal year 2003 to \$305.1 million (or 7.8%) in fiscal year 2004.

Business-type activities reported bonds and notes payable of \$7.9 million at fiscal year-end 2004. This represents a decrease of \$2.5 million (or 24%) over the fiscal year-end 2003 reported amount of \$10.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal Service Fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session, stronger than expected statewide economic performance, an almost non-existent 2004 fire season, and the receipt of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$4.6 billion at the end of fiscal year 2004. Net assets of the governmental activities increased \$287 million (or 7%), and business-type activities had a \$5.7 million (or 2.5%) increase.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2004	2003	2004	2003	2004
Current and other assets	\$2,733,511	\$2,952,118	\$326,525	\$350,552	\$3,060,036	\$3,302,670
Capital assets	2,225,327	2,409,128	10,195	8,925	2,235,522	2,418,053
Total assets	4,958,838	5,361,246	336,720	359,477	5,295,558	5,720,723
Long-term liabilities	369,306	336,669	10,010	9,896	379,316	346,565
Other liabilities	545,689	693,483	96,107	113,274	641,796	806,757
Total liabilities	914,995	1,030,152	106,117	123,170	1,021,112	1,153,322
Invested in capital assets, net of related debt	2,049,489	2,250,177	9,084	8,925	2,058,573	2,259,102
Restricted	1,817,193	1,858,088	202,268	212,473	2,019,461	2,070,561
Unrestricted	177,161	222,829	19,251	14,909	196,412	237,738
Total net assets	\$4,043,843	\$4,331,094	\$230,603	\$236,307	\$4,274,446	\$4,567,401

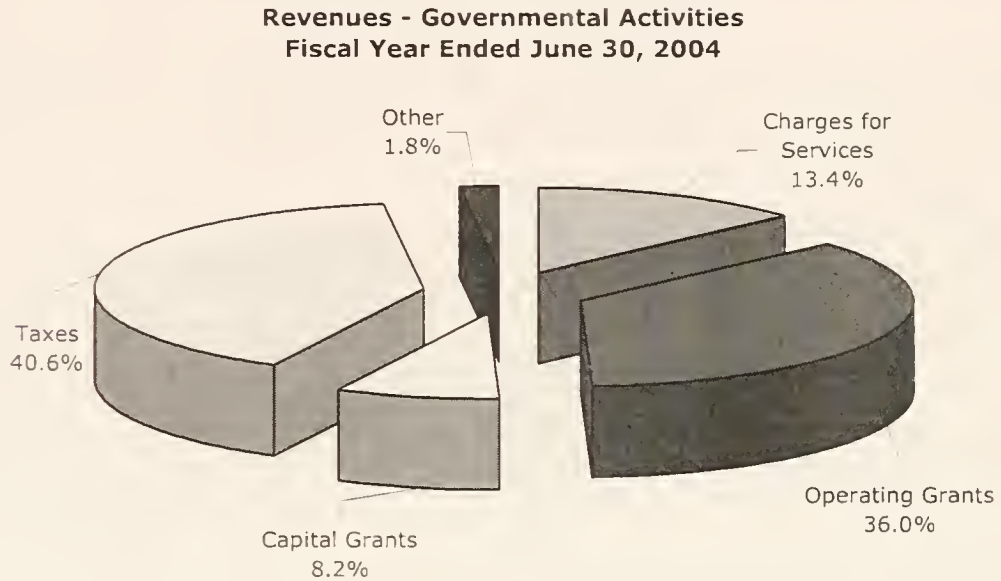
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

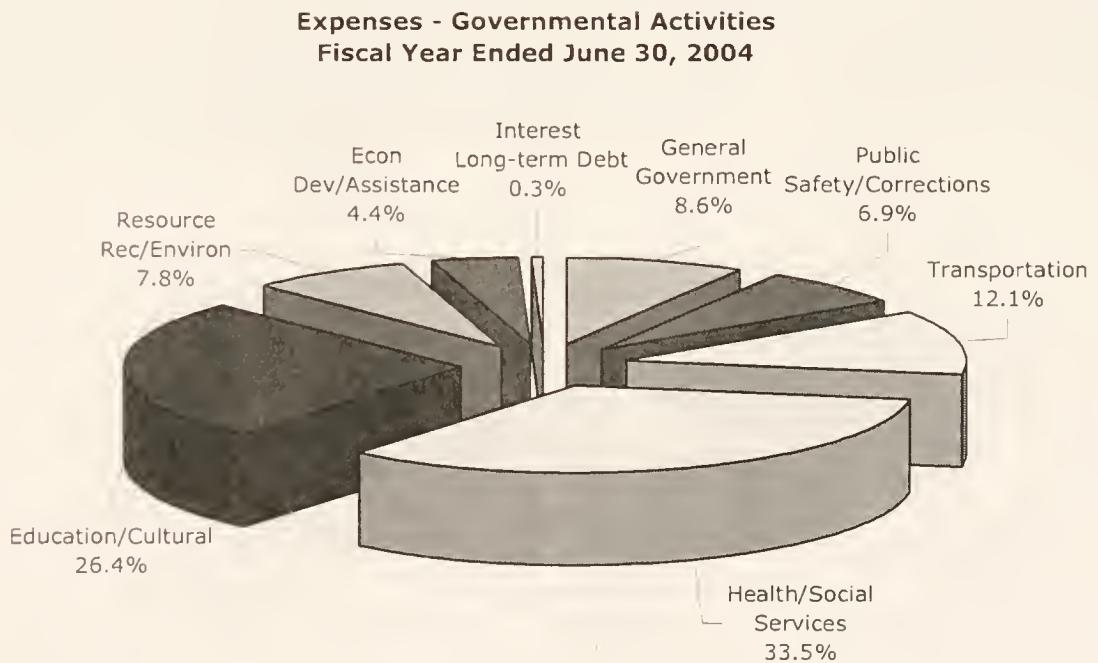
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2004	2003	2004	2003	2004
Revenues:						
Program revenues						
Charges for services	\$ 415,033	\$ 472,445	\$206,233	\$220,903	\$ 621,266	\$ 693,348
Operating grants	1,170,703	1,271,515	10,442	55,487	1,181,145	1,327,002
Capital grants	308,021	290,045	510	177	308,531	290,222
General revenues						
Taxes	1,260,398	1,436,571	13,650	14,621	1,274,048	1,451,192
Other	267,080	64,531	21,778	10,275	288,858	74,806
Total revenues	3,421,235	3,535,107	252,613	301,463	3,673,848	3,836,570
Expenses:						
General government	280,740	285,781	-	-	280,740	285,781
Public safety/corrections	194,885	227,786	-	-	194,885	227,786
Transportation	286,181	400,034	-	-	286,181	400,034
Health/social services	1,023,893	1,109,045	-	-	1,023,893	1,109,045
Educational/cultural	899,575	874,846	-	-	899,575	874,846
Resource/rec/envirom	234,848	258,057	-	-	234,848	258,057
Econ dev/assistance	169,270	144,687	-	-	169,270	144,687
Interest on long-term debt	19,910	15,088	-	-	19,910	15,088
Unemployment Insurance	-	-	92,639	93,882	92,639	93,882
Liquor Stores	-	-	40,097	42,827	40,097	42,827
State Lottery	-	-	27,320	28,669	27,320	28,669
Economic Dev Bonds	-	-	2,426	2,197	2,426	2,197
Hail Insurance	-	-	2,029	1,949	2,029	1,949
Gen Govt Services	-	-	14,177	48,395	14,177	48,395
Prison Funds	-	-	4,515	4,244	4,515	4,244
MUS Group Insurance	-	-	35,906	39,690	35,906	39,690
MUS Workers Comp	-	-	-	2,552	-	2,552
Total expenses	3,109,302	3,315,324	219,109	264,405	3,328,411	3,579,729
Increase (decrease) in net assets before transfers	311,933	219,783	33,504	37,058	345,437	256,841
Transfers	32,366	30,812	(32,366)	(30,812)	-	-
Change in net assets	344,299	250,595	1,138	6,246	345,437	256,841
Net assets, beg of year (restated)	3,699,544	4,080,499	229,465	230,061	3,929,009	4,310,560
Net assets, end of year	\$4,043,843	\$4,331,094	\$230,603	\$236,307	\$4,274,446	\$4,567,401

Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year:

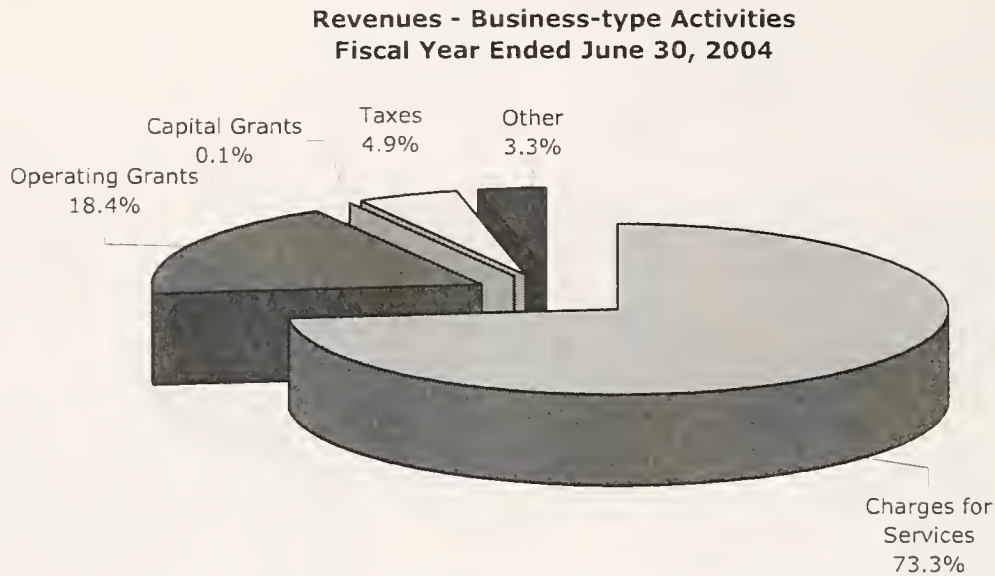


The following chart depicts expenses of the governmental activities for the fiscal year:

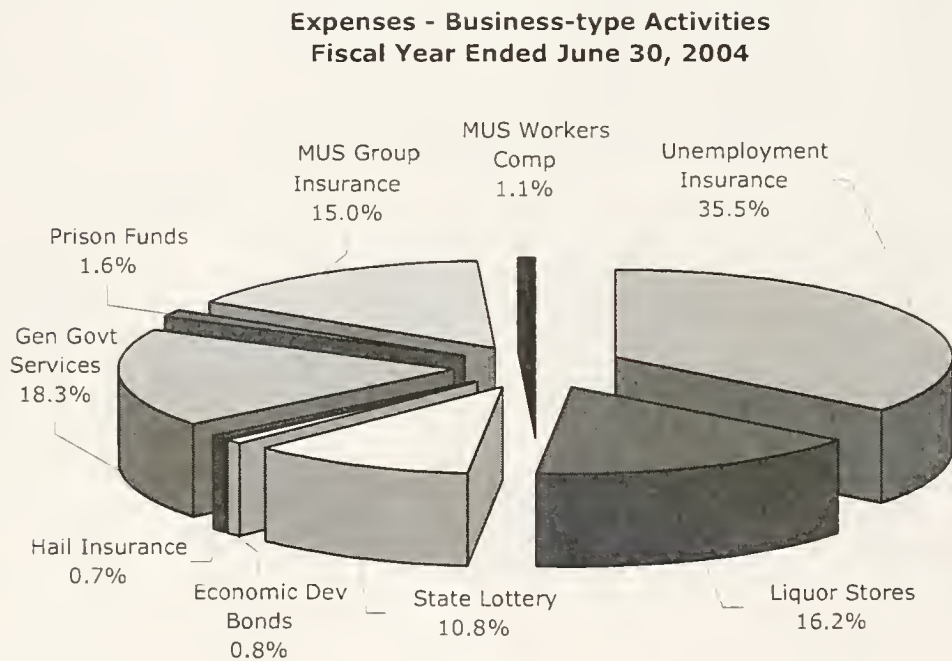


Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As the State completed the year, its governmental funds reported fund balances of \$2.3 billion. Of this total amount, \$66.6 million (or 2.9%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending as it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$133 million. Unreserved fund balance increased during the fiscal year by \$89.8 million, primarily because of lower corporation and property tax collections and interest rates.

General Fund Budgetary Highlights

Significant Under Spending Of Appropriation Authority - FMAP Rate "Enhancement" – Subsection 401(a) of TRRA provides temporary, with respect to certain expenditures by eligible states, increases in the federal medical assistance percentage (FMAP), which is the federal matching rate for states' medical assistance expenditures under their Medicaid program. Under this provision, the increased FMAP is available only for a period of five calendar quarters, the last two quarters of federal fiscal year 2003, and the first three quarters of federal fiscal year 2004.

The FMAP percentage for these five quarters increased by 3%. The result of this "windfall" was that the State's payment for this period was less than it would have been without this adjustment. The savings realized to the General Fund in fiscal year 2004 from the lower match rate for Montana is reflected in a lower base budget amount of Medicaid expenditures; the savings netted out to be approximately \$14 million.

Supplemental Development – Two areas received supplementals to augment their fiscal year 2004 appropriations. The largest was the District Court reimbursement which overspent its appropriation by \$1.9 million. The other area of over expenditure is K-12 base aid which spent \$1 million more than original estimates.

Higher Revenues Than Anticipated – Almost all of the fiscal year 2004 ending fund balance is due to revenue exceeding expectations in fiscal year 2004 and fiscal year 2005. Total General Fund collections were forecast to increase by \$57.9 million (4.6%) from fiscal year 2003 to fiscal year 2004. Twenty-five of the thirty-seven revenue sources ended the year above the forecast. Four revenue sources were more than \$5 million higher than the forecast. They are individual income tax (\$47.3 million higher), video gaming tax (\$5.7 million higher), U.S. mineral royalties (\$5.3 million higher), and oil and gas tax (\$14.4 million higher). Income tax collections were higher than forecast because of strong wage and salary growth and federal tax law changes. Oil and gas tax and U.S. mineral royalties are higher than forecast because natural gas and oil prices are higher than expected. In total, fiscal year 2004 revenues exceeded the forecast by nearly \$71 million, an 11% increase from fiscal year 2003.

General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 3% from fiscal year 2003 to fiscal year 2004. Revenues from various sources for fiscal year 2004, and the amount and percentage of increases and decreases in relation to prior year revenues, are shown in the following table (amounts in thousands):

Revenue Source	Amount	2004 Percent of Total	Increase (Decrease) from 2003	Percent Increase (Decrease)
Licenses/permits	\$ 240,612	6.8%	\$ 30,001	14.2%
Taxes	1,416,392	40.3	166,211	13.3
Chg srv/fines/forfeits/settle	200,590	5.7	42,651	27.0
Investment earnings	49,363	1.4	(155,043)	(75.9)
Securities lending income	2,032	0.1	82	4.2
Sales doc/merch/property	18,022	0.5	4,918	37.5
Rentals/leases/royalties	31,687	0.9	3,363	11.9
Contributions/premiums	7,608	0.2	675	9.7
Grants/contracts/donations	22,868	0.7	(1,692)	(6.9)
Federal	1,480,812	42.1	26,647	1.8
Federal indir cost rcvry	37,822	1.1	3,939	11.6
Other revenues	6,412	0.2	(17,632)	(73.3)
Total revenues	\$3,514,220	100.0	104,120	

An explanation of significant changes by revenue source follows:

Licenses and Permits – This was primarily caused by State Special Revenue Fund increases of \$6 million for Fish, Wildlife and Parks and \$10.9 million for Public Health and Human Services, and General Fund increases of \$10.6 million for Justice.

Taxes – The General Fund increase in revenues was primarily due to (1) a \$70.7 million increase in individual income tax receipts, (2) a \$23.6 million increase in corporation tax receipts, (3) a \$6.3 million decrease in property tax receipts, (4) a \$19 million increase in natural resource taxes, (5) a \$5 million increase in video gaming taxes, (6) a \$5.1 million increase in insurance premium taxes, and (7) a \$26.6 million increase in cigarette/tobacco taxes.

Charges for Services/Fines/Forfeits/Settlements – The increase in this Federal Special Revenue Fund revenue source primarily related to a \$39.4 million increase in fire suppression reimbursements.

Investment Earnings – The decrease in revenue across all major funds was due to the lower interest rates in fiscal year 2004 and a soft investment market.

Federal – This was primarily caused by an increase in Federal Special Revenue Fund Medicaid reimbursements for Health and Human Services.

Other Revenues – The decrease in revenue was primarily due to the expected decrease in the State Fund (Old) transfer to the General Fund as a result of the 2003 Legislature eliminating the 10% excess reserve requirement. This was a one-time transfer that occurred in fiscal year 2003, and with a very small residual impact on fiscal year 2004.

Total expenditures for all general governmental functions increased 5.2% from fiscal year 2003 to fiscal year 2004. Expenditures by function for fiscal year 2004, and the amount and percentage of increases or decreases in relation to the prior year amounts, are shown in the following table:

Expenditure Function	Amount (in thousands)	2004 Percent of Total	Increase (Decrease) from 2003	Percent Increase (Decrease)
General government	\$ 252,486	7.2%	\$ 12,779	5.3%
Public safety/corrections	208,593	6.0	19,291	10.2
Transportation	529,555	15.1	18,689	3.7
Health/social services	1,114,064	31.8	95,731	9.4
Education/cultural	898,988	25.7	4,397	0.5
Resource/recreation/environment	250,590	7.2	66,231	35.9
Economic development/assistance	144,381	4.1	(23,626)	(14.1)
Securities lending	1,784	0.1	50	2.9
Debt service	40,029	1.1	(17,139)	(30.0)
Capital outlay	60,310	1.7	(2,763)	(4.4)
Total expenditures	\$3,500,780	100.0	\$173,640	

An explanation of significant changes by expenditure function follows:

Public Safety/Corrections – Justice increased their General Fund program expenditures by \$3.4 million as a result of the fiscal year 2003 one-year increase of funding from the State Special Revenue Fund. This was funded from the General Fund in fiscal year 2004.

Corrections increased their General Fund expenditures by \$8.2 million.

Military Affairs increased General Fund expenditures primarily due to a one-year increase in funding from the State Special Revenue Fund in fiscal year 2003. The return to funding the State match for the Challenge program from the General Fund in fiscal year 2004 caused a \$1.2 million increase in expenditures. Military Affairs also experienced a \$2 million increase in Federal Special Revenue Fund expenditures primarily as a result of Federal Homeland Security grant expenditures.

Health/Social Services – Public Health and Human Services experienced an increase in the State and Federal Special Revenue Funds of \$42.2 million and \$71.3 million, respectively, primarily due to increased Medicaid matching requirements and payments to providers.

Resource/Recreation/Environment – The expenditure increase of \$13.1 million and \$69.1 million in the Natural Resource State and Federal Special Revenue Funds, respectively, was primarily related to 2003-2004 forest fire season expenditures.

Economic Development/Assistance– The expenditure decrease of \$29.4 million in the Federal Special Revenue Fund was primarily caused by the movement of the Section 8 Housing program to the enterprise fund type.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$4.1 billion, net of accumulated depreciation of \$1.7 billion, leaving a net book value of \$2.4 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 8% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from \$227.6 million at June 30, 2003, to \$219.6 million at June 30, 2004.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

	Amount (in thousands)	Ratio Debt to Assessed Value (1)	State Debt Per Capita (2)
General obligation debt	\$219,645	0.44%	\$239.26

(1) Assessed value is based on tax year.

(2) Based on a 2003 estimated Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.3% in the second quarter of 2004, which is an increase from a rate of 4% during the second quarter of 2003. This compares favorably with the nation's average unemployment rate of 5.5% during the same time period.

The 58th Legislative Session adjourned on April 26, 2003, with a projected General Fund balance for the 2005 biennium of \$46.2 million. During fiscal year 2004, economic conditions improved significantly with the General Fund balance, as of June 30, 2004, ending at the \$141.8 million level. This improving economic outlook is projected to continue through the end of fiscal year 2005 with a projected ending General Fund balance of \$209 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2004

(expressed in thousands)

	PRIMARY GOVERNMENT				
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS	
ASSETS					
Cash/cash equivalents (Note 3)	\$ 554,908	\$ 228,381	\$ 783,289	\$	182,704
Receivables (net)	247,490	33,025	280,515		68,513
Due from primary government	-	-	-		2,325
Due from other governments	153,711	222	153,933		23,016
Due from component units	1,692	1,440	3,132		764
Internal balances	(2,029)	2,029	-		-
Inventories	26,454	6,876	33,330		4,529
Advances to component units	8,957	4,872	13,829		-
Long-term loans/notes receivable	212,258	38,424	250,682		624,882
Equity in pooled investments (Note 3)	1,259,815	-	1,259,815		4,936
Investments (Note 3)	289,935	26,952	316,887		1,031,500
Securities lending collateral (Note 3)	192,909	521	193,430		154,859
Deferred charges	1,930	1,543	3,473		6,284
Restricted assets:					
Cash/cash equivalents (Note 3)	-	-	-		5,669
Investments (Note 3)	-	4,394	4,394		8,120
Capital assets (net) (Note 5)	2,409,128	8,925	2,418,053		493,175
Other assets	4,088	1,873	5,961		12,262
Total assets	5,361,246	359,477	5,720,723		2,623,538
LIABILITIES					
Accounts payable	353,892	6,825	360,717		45,507
Lottery prizes payable	-	2,812	2,812		-
Due to primary government	-	-	-		3,132
Due to other governments	3,102	292	3,394		10,947
Due to component units	2,324	1	2,325		764
Advances from primary government	-	-	-		13,829
Deferred revenue	40,318	3,497	43,815		24,503
Amounts held in custody for others	6,997	614	7,611		21,292
Securities lending liability (Note 3)	192,909	521	193,430		154,859
Other liabilities	11,127	-	11,127		5,654
Short-term debt (Note 11)	-	90,555	90,555		-
Long-term liabilities (Note 11):					
Due within one year	82,814	8,157	90,971		150,738
Due in more than one year	336,669	9,896	346,565		1,318,305
Total liabilities	1,030,152	123,170	1,153,322		1,749,530

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 2,250,177	\$ 8,925	\$ 2,259,102	\$ 270,297
Restricted for:				
Transportation	47,894	-	47,894	-
Fish, wildlife, and parks	60,417	-	60,417	-
Federal grants	26,896	-	26,896	-
Debt service/construction	-	-	-	21,538
Unemployment compensation	-	191,032	191,032	-
Funds held as permanent investments:				
Nonexpendable	1,302,866	-	1,302,866	163,833
Expendable	44,433	-	44,433	-
Housing authority	-	-	-	131,478
Resource/environment	334,877	-	334,877	-
Other purposes	40,705	21,441	62,146	76,241
Unrestricted	222,829	14,909	237,738	210,621
Total net assets	\$ 4,331,094	\$ 236,307	\$ 4,567,401	\$ 874,008

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	\$ 285,781	\$ 57,384	\$ 64,377	\$ -	\$ (164,020)
Public safety/corrections	227,786	159,397	42,047	-	(26,342)
Transportation	400,034	33,943	34,534	289,773	(41,784)
Health/social services	1,109,045	32,983	814,807	-	(261,255)
Education/cultural	874,846	28,922	152,437	272	(693,215)
Resource/recreation/environment	258,057	137,714	88,941	-	(31,402)
Economic development/assistance	144,687	22,102	74,372	-	(48,213)
Interest on long-term debt	15,088	-	-	-	(15,088)
Total governmental activities	3,315,324	472,445	1,271,515	290,045	(1,281,319)
Business-type activities:					
Unemployment Insurance	93,882	67,873	18,854	-	(7,155)
Liquor Stores	42,827	49,521	-	-	6,694
State Lottery	28,669	36,740	-	-	8,071
Economic Development Bonds	2,197	8	2,244	-	55
Hail Insurance	1,949	3,748	-	-	1,799
General Government Services	48,395	13,197	34,389	177	(632)
Prison Funds	4,244	5,140	-	-	896
MUS Group Insurance	39,690	42,252	-	-	2,562
MUS Workers Compensation	2,552	2,424	-	-	(128)
Total business-type activities	264,405	220,903	55,487	177	12,162
Total primary government	\$ 3,579,729	\$ 693,348	\$ 1,327,002	\$ 290,222	\$ (1,269,157)
Component units:					
Authorities:					
Housing Authority	\$ 40,995	\$ 228	\$ 42,791	\$ -	\$ 2,024
Facility Finance Authority	272	312	-	-	40
State Compensation Insurance (New Fund)	176,864	139,481	-	-	(37,383)
State Compensation Insurance (Old Fund)	14,055	-	-	-	(14,055)
State University System:					
Montana State University	354,743	137,352	132,922	8,141	(76,328)
University of Montana	279,937	121,494	92,757	4,414	(61,272)
Total component units	\$ 866,866	\$ 398,867	\$ 268,470	\$ 12,555	\$ (186,974)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,281,319)	\$ 12,162	\$ (1,269,157)	\$ (186,974)
General revenues:				
Taxes:				
Property	164,505	-	164,505	-
Fuel	198,332	-	198,332	-
Natural resource	131,053	-	131,053	-
Individual income	619,043	-	619,043	-
Corporate income	69,685	-	69,685	-
Other	253,953	14,621	268,574	71
Settlements	25,181	-	25,181	-
Unrestricted investment earnings	32,734	319	33,053	34,070
Payment from State of Montana	-	-	-	158,331
Gain on sale of capital assets	204	-	204	126
Miscellaneous	6,412	9,956	16,368	-
Contributions to term and permanent endowments	-	-	-	11,026
Transfers	30,812	(30,812)	-	-
Total general revenues, contributions, and transfers	1,531,914	(5,916)	1,525,998	203,624
Change in net assets	250,595	6,246	256,841	16,650
Total net assets - July 1 - as previously reported	4,043,843	230,603	4,274,446	867,003
Prior period adjustments (Note 2)	36,656	(542)	36,114	(9,645)
Total net assets - July 1 - as restated	4,080,499	230,061	4,310,560	857,358
Total net assets - June 30	\$ 4,331,094	\$ 236,307	\$ 4,567,401	\$ 874,008

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

State Special Revenue Fund

This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

Federal Special Revenue Fund

This fund accounts for all activities funded from federal sources used in the operation of state government.

Coal Severance Tax Fund

This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

Land Grant Fund

This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type, beginning on page 114.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004
(expressed in thousands)

	SPECIAL REVENUE			PERMANENT			
	GENERAL	STATE	FEDERAL	COAL	LAND	NONMAJOR	TOTAL
				SEVERANCE	GRANT		
				TAX			
ASSETS							
Cash/cash equivalents (Note 3)	\$ 126,209	\$ 229,620	\$ 59,667	\$ 52,889	\$ 23,261	\$ 32,983	\$ 524,629
Receivables (net) (Note 4)	150,467	64,857	9,436	7,856	5,977	5,259	243,852
Interfund loans receivable (Note 12)	44,336	41,621	244	-	-	-	86,201
Due from other governments	18	823	152,867	-	-	-	153,708
Due from other funds (Note 12)	18,645	24,157	1,438	1,854	276	1,241	47,611
Due from component units	539	801	77	74	-	57	1,548
Inventories	2,665	22,968	-	-	-	-	25,633
Equity in pooled investments (Note 3)	-	211,566	-	441,728	427,383	179,139	1,259,816
Long-term loans/notes receivable	47	178,825	352	-	-	33,034	212,258
Advances to other funds (Note 12)	100	11,583	100	52,469	-	3,002	67,254
Advances to component units	-	-	-	8,957	-	-	8,957
Investments (Note 3)	-	109,505	1,114	161,695	-	13,345	285,659
Securities lending collateral (Note 3)	-	44,621	-	60,959	58,979	27,332	191,891
Other assets	2,269	842	441	-	-	-	3,552
Total assets	\$ 345,295	\$ 941,789	\$ 225,736	\$ 788,481	\$ 515,876	\$ 295,392	\$ 3,112,569
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	122,765	81,512	112,060	-	5,842	2,833	325,012
Interfund loans payable (Note 12)	-	19,801	63,880	42	-	630	84,353
Due to other governments	297	751	2,054	-	-	-	3,102
Due to other funds (Note 12)	8,839	7,584	3,861	7,107	13,593	3,153	44,137
Due to component units	15,325	597	1,164	-	466	49	17,601
Advances from other funds (Note 12)	-	61,328	893	-	-	10,805	73,026
Deferred revenue	52,061	29,068	10,025	-	-	-	91,154
Amounts held in custody for others	4,207	2,250	403	-	94	-	6,954
Securities lending liability (Note 3)	-	44,621	-	60,959	58,979	27,332	191,891
Other liabilities	25	118	-	-	-	-	143
Total liabilities	203,519	247,630	194,340	68,108	78,974	44,802	837,373
Fund balances:							
Reserved for:							
Encumbrances	5,017	15,866	14,158	-	-	339	35,380
Inventories	2,665	22,968	-	-	-	-	25,633
Long-term loans/notes receivable	47	178,825	352	-	-	33,034	212,258
Advances to other funds/component units	100	11,583	100	61,426	-	3,002	76,211
Special revenue (Note 14)	-	538,500	27,057	-	-	-	565,557
Debt service	-	-	-	-	-	6,521	6,521
Trust principal (Note 14)	-	-	-	658,947	436,902	190,030	1,285,879
Escheated property	1,074	37	-	-	-	-	1,111
Unreserved, designated,							
reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	9,253	9,253
Unreserved, undesignated	132,873	(73,620)	(10,271)	-	-	-	48,982
Unreserved, undesignated,							
reported in nonmajor:							
Debt service funds	-	-	-	-	-	(2,250)	(2,250)
Capital projects funds	-	-	-	-	-	10,661	10,661
Total fund balances	141,776	694,159	31,396	720,373	436,902	250,590	2,275,196
Total liabilities and fund balances	\$ 345,295	\$ 941,789	\$ 225,736	\$ 788,481	\$ 515,876	\$ 295,392	\$ 3,112,569

The notes to the financial statements are an integral part of this statement.

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2004

(expressed in thousands)

Total fund balances for governmental funds \$ 2,275,196

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore not reported in the funds.

Land	315,485	
Land improvements	11,852	
Buildings/improvements	325,966	
Equipment	70,300	
Infrastructure	2,947,719	
Other capital assets	73,416	
Construction in progress	176,171	
Intangible assets	18,735	
Less accumulated depreciation	<u>(1,614,481)</u>	
Total capital assets		2,325,163

Certain tax revenues are earned, but not available and therefore deferred
in the funds. 51,804

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and central computer services, to
individual funds. The assets and liabilities of the internal service funds
are included in the governmental activities in the statement of net assets. 70,881

Deferred issue costs are reported as current expenditures in the funds.
These costs are amortized over the life of the bonds and included
in governmental activities in the statement of net assets. 1,930

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

Accrued interest	(5,003)	
Lease/installment purchase payable	(2,180)	
Bonds/notes payable (net)	(305,100)	
Compensated absences payable	(70,319)	
Early retirement benefits payable	(216)	
Arbitrage rebate tax payable	(78)	
Other liabilities	<u>(10,984)</u>	
Total long-term liabilities		<u>(393,880)</u>

Net assets of governmental activities \$ 4,331,094

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	SPECIAL REVENUE			PERMANENT				
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
REVENUES								
Licenses/permits	\$ 130,807	\$ 109,069	\$ -	\$ -	\$ 365	\$ 371	\$ 240,612	
Taxes:								
Natural resource	52,820	57,385	-	15,830	-	4,698	130,733	
Individual income	602,262	234	-	-	-	-	602,496	
Corporate income	67,412	-	-	-	-	-	67,412	
Property	164,485	20	-	-	-	-	164,505	
Fuel	-	198,318	-	-	-	14	198,332	
Other (Note 1)	206,180	44,954	13	-	-	1,767	252,914	
Charges for services/fines/forfeits/settlements	42,354	74,836	71,342	-	-	12,058	200,590	
Investment earnings	7,119	7,909	247	17,666	6,633	9,789	49,363	
Securities lending income	374	378	-	529	524	227	2,032	
Sale of documents/merchandise/property	319	4,456	3	-	11,147	2,097	18,022	
Rentals/leases/royalties	73	439	-	-	31,058	117	31,687	
Contributions/premiums	-	7,608	-	-	-	-	7,608	
Grants/contracts/donations	3,293	19,374	99	-	(7)	109	22,868	
Federal	28,642	709	1,451,461	-	-	-	1,480,812	
Federal indirect cost recovenes	156	34,280	3,386	-	-	-	37,822	
Other revenues	2,104	4,216	77	-	-	15	6,412	
Total revenues	1,308,400	564,185	1,526,628	34,025	49,720	31,262	3,514,220	
EXPENDITURES								
Current:								
General government	168,545	72,342	6,647	-	-	4,952	252,486	
Public safety/corrections	128,176	39,505	38,469	-	-	2,443	208,593	
Transportation	170	239,612	289,773	-	-	-	529,555	
Health/social services	250,570	54,077	809,417	-	-	-	1,114,064	
Education/cultural	662,458	65,809	170,719	-	-	2	898,988	
Resource/recreation/environment	20,066	101,367	125,800	-	2,900	457	250,590	
Economic development/assistance	21,278	54,793	68,310	-	-	-	144,381	
Debt service:								
Principal retirement	620	480	239	-	-	23,878	25,217	
Interest/fiscal charges	1,158	703	21	-	-	12,930	14,812	
Capital outlay	1,094	30,151	12,501	-	-	16,564	60,310	
Securities lending	324	328	-	468	463	201	1,784	
Total expenditures	1,254,459	659,167	1,521,896	468	3,363	61,427	3,500,780	
Excess of revenue over (under) expenditures	53,941	(94,982)	4,732	33,557	46,357	(30,165)	13,440	
OTHER FINANCING SOURCES (USES)								
Bonds issued	-	2,665	-	-	-	3,125	5,790	
Refunding bonds issued	-	11,510	-	-	-	8,725	20,235	
Bond premium	-	111	-	-	-	367	478	
Payment to refunding bond escrow agent	-	(11,271)	-	-	-	(8,943)	(20,214)	
Inception of lease/installment contract	648	127	522	-	-	-	1,297	
General capital asset sale proceeds	76	194	-	-	-	-	270	
Transfers in (Note 12)	66,401	125,763	4,317	3,405	-	39,752	239,638	
Transfers out (Note 12)	(29,624)	(23,516)	(27,665)	(43,969)	(65,818)	(19,574)	(210,166)	
Total other financing sources (uses)	37,501	105,583	(22,826)	(40,564)	(65,818)	23,452	37,328	
Net change in fund balances	91,442	10,601	(18,094)	(7,007)	(19,461)	(6,713)	50,768	
Fund balances - July 1 - as previously reported	51,121	687,063	51,500	727,380	456,363	257,304	2,230,731	
Prior period adjustments (Note 2)	(833)	(5,622)	(2,010)	-	-	(1)	(8,466)	
Fund balances - July 1 - as restated	50,288	681,441	49,490	727,380	456,363	257,303	2,222,265	
Increase (decrease) in inventories	46	2,117	-	-	-	-	2,163	
Fund balances - June 30	\$ 141,776	\$ 694,159	\$ 31,396	\$ 720,373	\$ 436,902	\$ 250,590	\$ 2,275,196	

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

JUNE 30, 2004

(expressed in thousands)

Net change in fund balances - total governmental funds \$ 50,768

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	260,182	
Depreciation expense	(113,796)	
Excess of capital outlay over depreciation expense		146,386

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

(5,757)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources.

364

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed.

2,163

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

20,190

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

21,619

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

The details of these differences is as follows:

Bonds issued	(5,790)	
Refunding bonds issued	(20,235)	
Bond premium	(478)	
Payment to refunding bond escrow agent	20,214	
Capital lease financing	(1,297)	
Principal retirement	25,217	
Issuance costs deferral	640	
Bond issuance costs amortization	(156)	
Bond refunding loss amortization	(647)	
Bond discount amortization	(21)	
Bond premium amortization	187	
Total long-term debt proceeds/repayment		17,634

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(17)	
Compensated absences	(3,788)	
Early retirement benefits	102	
Arbitrage rebate tax	68	
Other liabilities	863	
Total additional expenditures		(2,772)

Change in net assets of governmental activities	\$ 250,595
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The notes to the financial statements are an integral part of this statement.

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PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

Economic Development Bonds

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 134.

Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 156.

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2004

(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 185,863	\$ 7,535	\$ 34,983	\$ 228,381	\$ 30,279
Receivables (net) (Note 4)	6,211	9,912	16,855	32,978	3,244
Interfund loans receivable (Note 12)	-	-	93	93	574
Due from other governments	-	-	222	222	3
Due from other funds (Note 12)	1	3,142	232	3,375	6,181
Due from component units	-	1,196	268	1,464	529
Inventories	-	-	6,876	6,876	821
Short-term investments	-	23,243	731	23,974	-
Securities lending collateral (Note 3)	-	-	521	521	1,016
Other current assets	-	-	256	256	534
Total current assets	192,075	45,028	61,037	298,140	43,181
Noncurrent assets:					
Restricted investments	-	4,394	-	4,394	-
Advances to other funds (Note 12)	-	9,182	255	9,437	-
Advances to component units	-	6,262	-	6,262	-
Long-term investments (Note 3)	-	237	2,741	2,978	4,277
Long-term notes/loans receivable	-	36,174	654	36,828	-
Deferred charges	-	1,506	37	1,543	-
Other long-term assets	-	-	1,617	1,617	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	1,387	1,387	95
Buildings/improvements	-	-	6,098	6,098	2,852
Equipment	-	12	9,865	9,877	175,608
Infrastructure	-	-	884	884	-
Construction in progress	-	-	255	255	2,898
Intangible assets	-	-	941	941	1,703
Less accumulated depreciation	-	(8)	(11,309)	(11,317)	(99,428)
Total capital assets	-	4	8,921	8,925	83,964
Total noncurrent assets	-	57,759	14,225	71,984	88,241
Total assets	192,075	102,787	75,262	370,124	131,422

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2004

(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 54	\$ 627	\$ 6,142	\$ 6,823	\$ 8,538
Lottery prizes payable	-	-	1,529	1,529	-
Interfund loans payable (Note 12)	1	-	295	296	2,219
Due to other governments	-	-	292	292	-
Due to other funds (Note 12)	657	6	9,690	10,353	2,653
Due to component units	-	-	1	1	50
Deferred revenue	-	18	3,479	3,497	968
Short-term debt (Note 11)	-	90,555	-	90,555	-
Lease/installment purchase payable (Note 10)	-	-	-	-	50
Bonds/notes payable - net (Note 11)	-	1,672	395	2,067	-
Amounts held in custody for others	331	99	184	614	45
Securities lending liability (Note 3)	-	-	521	521	1,016
Estimated insurance claims (Note 8)	-	-	5,341	5,341	14,063
Compensated absences payable (Note 11)	-	11	654	665	2,779
Arbitrage rebate tax payable	-	84	-	84	-
Total current liabilities	1,043	93,072	28,523	122,638	32,381
Long-term liabilities:					
Lottery prizes payable	-	-	1,283	1,283	-
Advances from other funds (Note 12)	-	-	-	-	3,461
Lease/installment purchase payable (Note 10)	-	-	-	-	102
Bonds/notes payable - net (Note 11)	-	4,615	1,260	5,875	-
Estimated insurance claims (Note 8)	-	-	3,402	3,402	22,690
Compensated absences payable (Note 11)	-	14	549	563	1,907
Arbitrage rebate tax payable	-	56	-	56	-
Total long-term liabilities	-	4,685	6,494	11,179	28,160
Total liabilities	1,043	97,757	35,017	133,817	60,541
NET ASSETS					
Invested in capital assets, net of related debt	-	4	8,921	8,925	83,812
Restricted for:					
Unemployment Compensation	191,032	-	-	191,032	-
Other Purposes	-	2,763	18,678	21,441	-
Unrestricted	-	2,263	12,646	14,909	(12,931)
Total net assets	\$ 191,032	\$ 5,030	\$ 40,245	\$ 236,307	\$ 70,881

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 8	\$ 96,641	\$ 96,649	\$ 92,488
Investment earnings	11,339	83	314	11,736	221
Securities lending income	-	-	5	5	4
Financing income	-	2,161	-	2,161	-
Contributions/premiums	67,873	-	56,185	124,058	100,442
Grants/contracts/donations	7,515	-	34,389	41,904	-
Taxes	-	-	14,621	14,621	3
Other operating revenues	9,402	-	750	10,152	1,404
Total operating revenues	96,129	2,252	202,905	301,286	194,562
Operating expenses:					
Personal services	-	186	9,317	9,503	32,822
Contractual services	-	33	10,130	10,163	15,232
Supplies/materials	-	7	43,317	43,324	18,124
Benefits/claims	93,882	-	81,442	175,324	70,931
Depreciation	-	2	1,397	1,399	10,438
Amortization	-	-	286	286	476
Utilities/rent	-	39	721	760	10,192
Communications	-	6	1,103	1,109	8,760
Travel	-	4	152	156	391
Repair/maintenance	-	1	346	347	7,141
Lottery prize payments	-	-	18,680	18,680	-
Interest expense	-	1,852	88	1,940	263
Securities lending expense	-	-	4	4	3
Arbitrage rebate tax	-	40	-	40	-
Dividend expense	-	-	353	353	-
Other operating expenses	-	27	1,324	1,351	2,345
Total operating expenses	93,882	2,197	168,660	264,739	177,118
Operating income (loss)	2,247	55	34,245	36,547	17,444
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	-	-	(44)	(44)	(523)
Federal indirect cost recoveries	-	-	-	-	3,450
Increase (decrease) value of livestock	-	-	378	378	-
Total nonoperating revenues (expenses)	-	-	334	334	2,927
Income (loss) before contributions and transfers	2,247	55	34,579	36,881	20,371
Capital contributions	-	-	218	218	420
Transfers in (Note 12)	-	-	3,452	3,452	2,167
Transfers out (Note 12)	(4,297)	-	(30,008)	(34,305)	(1,339)
Change in net assets	(2,050)	55	8,241	6,246	21,619
Total net assets - July 1 - as previously reported	193,632	4,975	31,996	230,603	48,122
Prior period adjustments (Note 2)	(550)	-	8	(542)	1,140
Total net assets - July 1 - as restated	193,082	4,975	32,004	230,061	49,262
Total net assets - June 30	\$ 191,032	\$ 5,030	\$ 40,245	\$ 236,307	\$ 70,881

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 67,576	\$ 8	\$ 153,058	\$ 220,642	\$ 192,976
Payments to suppliers for goods and services	-	(117)	(90,621)	(90,738)	(62,070)
Payments to employees	-	(188)	(9,323)	(9,511)	(32,247)
Grant receipts	7,413	-	34,073	41,486	3,669
Cash payments for claims	(94,184)	-	(46,291)	(140,475)	(76,808)
Cash payments for prizes	-	-	(18,505)	(18,505)	-
Other operating revenues	7,511	-	534	8,045	1,499
Other operating payments	-	-	(353)	(353)	-
Net cash provided by (used for) operating activities	(11,684)	(297)	22,572	10,591	27,019
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	14,623	14,623	-
Transfers to other funds	(4,273)	-	(28,960)	(33,233)	(534)
Transfers from other funds	-	-	3,760	3,760	1,638
Proceeds from interfund loans/advances	1	-	476	477	4,753
Payments of interfund loans/advances	-	-	(250)	(250)	(6,881)
Payment of external loan	-	-	(506)	(506)	-
Collection of principal and interest on loans	-	-	37	37	-
Payment of principal and interest on bonds and notes	-	(4,987)	(443)	(5,430)	(2,573)
Proceeds from issuance of bonds and notes	-	18,601	2,050	20,651	3,701
Payment of bond issuance costs	-	(401)	(46)	(447)	-
Net cash provided by (used for) noncapital financing activities	(4,272)	13,213	(9,259)	(318)	104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	-	(452)	(452)	(14,459)
Proceeds from sale of capital assets	-	-	1	1	1,076
Principal and interest payments on bonds and notes	-	-	(1,145)	(1,145)	(2,495)
Net cash used for capital and related financing activities	-	-	(1,596)	(1,596)	(15,878)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(28,132)	(2,520)	(30,652)	(2,946)
Proceeds from sales or maturities of investments	-	12,578	427	13,005	2,727
Proceeds from securities lending transactions	-	-	5	5	4
Interest and dividends on investments	11,339	373	364	12,076	436
Payment of securities lending costs	-	-	(4)	(4)	(3)
Collections of principal and interest on loans	-	29,032	-	29,032	-
Cash payment for loans	-	(29,924)	-	(29,924)	-
Arbitrage rebate tax	-	(71)	-	(71)	-
Net cash provided by (used for) investing activities	11,339	(16,144)	(1,728)	(6,533)	218
Net increase (decrease) in cash and cash equivalents	(4,617)	(3,228)	9,989	2,144	11,463
Cash and cash equivalents, July 1	190,480	10,763	24,994	226,237	18,816
Cash and cash equivalents, June 30	\$ 185,863	\$ 7,535	\$ 34,983	\$ 228,381	\$ 30,279

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 2,247	\$ 55	\$ 34,243	\$ 36,545	\$	17,444
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	2	1,397	1,399		10,438
Amortization	-	-	286	286		476
Taxes	-	-	(14,621)	(14,621)		-
Interest expense	-	1,852	88	1,940		263
Securities lending expense	-	-	4	4		3
Investment Earnings	(11,339)	(83)	(314)	(11,736)		(221)
Securities lending income	-	-	(5)	(5)		(4)
Financing income	-	(2,161)	-	(2,161)		-
Federal indirect cost recoveries	-	-	-	-		3,450
Arbitrage rebate tax	-	40	-	40		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	(1,463)	-	277	(1,186)		(57)
Decr (incr) in due from other funds	2	-	(14)	(12)		1,037
Decr (incr) in due from component units	-	-	356	356		(138)
Decr (incr) in due from other governments	-	-	(200)	(200)		-
Decr (incr) in inventories	-	-	(402)	(402)		-
Decr (incr) in other assets	-	-	443	443		(487)
Incr (decr) in accounts payable	(1,120)	4	(530)	(1,646)		565
Incr (decr) in lottery prizes payable	-	-	(227)	(227)		-
Incr (decr) in due to other funds	(11)	-	(44)	(55)		147
Incr (decr) in due to component units	-	-	(1)	(1)		(1)
Incr (decr) in due to other governments	-	-	(197)	(197)		-
Incr (decr) in deferred revenue	-	-	(520)	(520)		(477)
Incr (decr) in amounts held in custody for others	-	-	92	92		(39)
Incr (decr) in compensated absences payable	-	(6)	(176)	(182)		280
Incr (decr) in estimated claims	-	-	2,637	2,637		(5,660)
Net cash provided by (used for) operating activities	\$ (11,684)	\$ (297)	\$ 22,572	\$ 10,591	\$	27,019
Schedule of noncash transactions:						
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	\$	1,084
Capital contributions from other funds	-	-	41	41		420
Capital contributions to other funds	-	-	-	-		(429)
Amortization of bond issuance costs	-	-	9	9		-
Incr (decr) in fair value of investments	-	(235)	(38)	(273)		(209)
Total noncash transactions	\$ -	\$ (235)	\$ 12	\$ (223)	\$	866

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FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

Private-Purpose Trust Funds

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust

This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short Term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 174.

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2004

(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 201,468	\$ 2,179	\$ 601,911	\$ 118,489
Receivables (net):				
Accounts receivable	16,004	7	-	719
Interest	20,529	-	-	44,319
Due from primary government	15,329	-	-	-
Due from other PERB plans	379	-	-	-
Long-term loans/notes receivable	326	-	-	-
Advances to other PERB plans	86	-	-	-
Total receivables	52,653	7	-	45,038
Investments at fair value:				
Equity in pooled investments (Note 3)	5,611,716	-	-	-
Other investments (Note 3)	384,841	-	-	-
Total investments	5,996,557	-	-	-
Securities lending collateral (Note 3)	280,120	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(259)	-	-	-
Intangible assets	1,511	-	-	-
Total capital assets	1,597	-	-	-
Other assets	8	5,857	-	11,672
Total assets	6,532,403	8,043	601,911	175,199
LIABILITIES				
Accounts payable	895	8	-	51,070
Due to primary government	411	-	-	-
Due to other PERB plans	379	-	-	-
Due to other funds (Note 12)	24	-	-	-
Advances from primary government	1,390	-	-	-
Advances from other PERB plans	86	-	-	-
Advances from other funds (Note 12)	204	-	-	-
Deferred revenue	57	-	-	-
Amounts held in custody for others	-	-	-	124,129
Securities lending liability (Note 3)	280,120	-	-	-
Compensated absences payable	396	-	-	-
Total liabilities	283,962	8	-	175,199
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 6,248,441	\$ 8,035	\$ 601,911	\$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 130,627	\$ -	\$ -
Employee	141,584	-	-
Other contributions	17,988	-	1,099,337
Net investment earnings:			
Investment earnings	738,301	14	6,442
Administrative investment expense	(7,855)	-	-
Securities lending income	2,960	-	-
Securities lending expense	(2,412)	-	-
Charges for services	394	-	-
Other additions	136	2,142	-
Total additions	1,021,723	2,156	1,105,779
DEDUCTIONS			
Benefits	335,206	-	-
Refunds	18,738	-	-
Distributions	-	2,039	1,168,439
Administrative expenses:			
Personal services	2,320	-	-
Contractual services	2,059	4	-
Supplies/materials	75	-	-
Depreciation	610	-	-
Amortization	157	-	-
Utilities/rent	234	-	-
Communications	189	-	-
Travel	52	-	-
Repair/maintenance	43	-	-
Grants	-	3	-
Interest expense	46	-	-
Other operating expenses	316	-	-
Local assistance	12	-	-
Loss on capital assets	890	-	-
Transfers to ORP	188	-	-
Transfers to PERS-DCRP	1,295	-	-
Total deductions	362,430	2,046	1,168,439
Change in net assets	659,293	110	(62,660)
Net assets - July 1 - as previously reported	5,587,231	4,919	664,571
Prior period adjustments (Note 2)	1,917	3,006	-
Net assets - July 1 - as restated	5,589,148	7,925	664,571
Net assets - June 30	\$ 6,248,441	\$ 8,035	\$ 601,911

The notes to the financial statements are an integral part of this statement.

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COMPONENT UNIT FINANCIAL STATEMENTS

Housing Authority

This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

Facility Finance Authority

This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible.

State Compensation Insurance Fund (New and Old)

This fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax.

Montana State University and University of Montana

These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

COMBINING STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2004

(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 7,264	\$ 1,995	\$ 20,685	\$ 4,114
Receivables (net)	14,660	159	12,823	1,088
Due from primary government	1	-	1	-
Due from other governments	-	-	-	-
Due from component units	-	-	531	63
Inventories	-	-	-	-
Long-term loans/notes receivable	598,747	299	37	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	140,475	-	582,068	69,216
Securities lending collateral (Note 3)	-	-	141,060	13,249
Deferred charges	6,284	-	-	-
Restricted assets:				
Cash/cash equivalents (Note 3)	-	-	-	-
Investments (Note 3)	-	-	-	-
Capital assets (net) (Note 5)	76	-	2,349	-
Other assets	181	3	2,038	-
Total assets	767,688	2,456	761,592	87,730
LIABILITIES				
Accounts payable	3,339	12	8,157	614
Due to primary government	27	4	1,223	1
Due to other governments	-	-	-	-
Due to component units	5	-	63	531
Advances from primary government	-	-	-	-
Deferred revenue	-	-	5,977	-
Amounts held in custody for others	683	-	8,513	-
Securities lending liability (Note 3)	-	-	141,060	13,249
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	7,883	13	100,744	14,409
Due in more than one year	624,197	9	353,083	66,369
Total liabilities	636,134	38	618,820	95,173
NET ASSETS				
Invested in capital assets, net of related debt	76	-	2,349	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	131,478	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,418	140,423	(7,443)
Total net assets	\$ 131,554	\$ 2,418	\$ 142,772	\$ (7,443)

The notes to the financial statements are an integral part of this statement.

STATE UNIVERSITY SYSTEM

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 92,342	\$ 56,304	\$ 182,704
17,100	22,683	68,513
1,191	1,132	2,325
15,351	7,665	23,016
147	23	764
2,833	1,696	4,529
17,033	8,766	624,882
-	4,936	4,936
103,737	136,004	1,031,500
-	550	154,859
-	-	6,284
942	4,727	5,669
5,396	2,724	8,120
246,135	244,615	493,175
5,477	4,563	12,262
507,684	496,388	2,623,538
17,439	15,946	45,507
1,247	630	3,132
8,255	2,692	10,947
21	144	764
8,786	5,043	13,829
8,360	10,166	24,503
3,918	8,178	21,292
-	550	154,859
3,147	2,507	5,654
16,347	11,342	150,738
117,013	157,634	1,318,305
184,533	214,832	1,749,530
153,889	113,983	270,297
10,443	11,095	21,538
73,848	89,985	163,833
-	-	131,478
33,236	43,005	76,241
51,735	23,488	210,621
\$ 323,151	\$ 281,556	\$ 874,008

COMBINING STATEMENT OF ACTIVITIES

COMPONENT UNITS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
EXPENSES	\$ 40,995	\$ 272	\$ 176,864	\$ 14,055
PROGRAM REVENUES:				
Charges for services	228	312	139,481	-
Operating grants and contributions	42,791	-	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	43,019	312	139,481	-
Net (expenses) program revenues	2,024	40	(37,383)	(14,055)
GENERAL REVENUES:				
Taxes:				
Other	-	-	3	68
Unrestricted investment earnings	-	40	17,037	349
Payment from State of Montana	-	-	-	-
Gain on sale of capital assets	-	-	22	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	-	40	17,062	417
Change in net assets	2,024	80	(20,321)	(13,638)
Total net assets - July 1 - as previously reported	129,530	2,338	163,093	6,195
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	129,530	2,338	163,093	6,195
Total net assets - June 30	\$ 131,554	\$ 2,418	\$ 142,772	\$ (7,443)

The notes to the financial statements are an integral part of this statement.

STATE UNIVERSITY SYSTEM

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 354,743	\$ 279,937	\$ 866,866
137,352	121,494	398,867
132,922	92,757	268,470
8,141	4,414	12,555
278,415	218,665	679,892
(76,328)	(61,272)	(186,974)
-	-	71
3,817	12,827	34,070
93,454	64,877	158,331
104	-	126
5,715	5,311	11,026
103,090	83,015	203,624
26,762	21,743	16,650
301,808	264,039	867,003
(5,419)	(4,226)	(9,645)
296,389	259,813	857,358
\$ 323,151	\$ 281,556	\$ 874,008

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The system is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The system is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement systems for the purpose of providing retirement, disability, death, and lump-sum payments to each system member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and

employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement systems including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due. Significant intrafund transactions and balances have been eliminated.

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

Trust and Agency Funds – To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs. These include: (1) pension (and other employee benefit) trust funds, (2) agency funds, (3) investment trust funds, and (4) private-purpose trust funds.

The State reports the following funds as major as defined under GASB 34:

Major Governmental Funds

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Proprietary Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond indenture agreements.

I. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

J. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, higher education units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the Balance Sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of the primary government are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on

a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure is \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability is recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2003, was 204.4 hours. For fiscal year 2004, 4,879.5 hours were contributed to the sick leave pool and 2,911.5 hours were withdrawn leaving a balance of 2,172.4 hours in the pool. No liability is reported in the accompanying financial statements because these hours

are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance

In the fund financial statements, reservations represent those portions of fund balance or net assets not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance in relation to bonds payable.

S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Video gaming	\$ 50,733	\$ -	\$ -	\$ 50,733
Insurance premium	52,257	-	-	52,257
Inheritance	10,265	-	-	10,265
University system millage	981	10,963	-	11,944
Cigarette/tobacco	39,619	3,877	1,767	45,263
Accommodations	9,684	13,941	-	23,625
Telephone license	20,789	-	-	20,798
Alcoholic beverage	4,356	1,648	-	6,004
Electrical energy	8,106	-	-	8,106
Public contractor	2,120	-	-	2,120
Livestock	-	3,572	-	3,572
Public Service Commission	-	2,836	-	2,836
Freight line	1,568	-	-	1,568
Fire protection	3,070	2,403	-	5,473
Agriculture sales	-	2,739	-	2,739
Consumer Counsel	-	1,314	-	1,314
Car rental	2,486	-	-	2,486
Light vehicle registration	-	1,429	-	1,429
Miscellaneous	146	232	-	378
Total other taxes	\$206,180	\$44,954	\$1,767	\$252,901

NOTE 2. OTHER ACCOUNTING ISSUES**A. Restatement of Beginning Fund Balances/Net Assets**

For the year ended June 30, 2004, the State implemented Statement 39 of the Governmental Accounting Standards Board. As a result of implementing this statement, the State's university component units began reporting their significant fund-raising foundations. The prior year net assets of the fund-raising foundations have been reported as an increase to beginning net assets of the universities as follows: Montana State University, \$96,878,000 and University of Montana, \$126,817,000.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Net Assets, and related to various capital asset corrections.

C. Fund Reorganization

For reporting purposes, several small funds were combined as follows:

Internal Service Funds – FWP Warehouse Inventory, FWP Office Supply, Statewide Fueling Network, and Procurement Card Purchases were combined into the Other Internal Services fund.

Nonmajor Enterprise Funds – Montana Career Information System, Judiciary Law Library, Department of Agriculture, Advanced Drivers Education, and FWP Visitor Services were combined into the Other Enterprise Funds fund.

Nonmajor Permanent Funds – Jim Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, and Historical Society Acquisitions were combined into the Historical Society Trusts Fund.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$1,895,710
Equity in pooled investments	\$6,876,467
Investments	\$1,745,742

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external

investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 deposits are uncollateralized. The State's cash deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of risk assumed by the State at June 30, 2004.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments where the securities are held by the counter party's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities, in addition to other long-term investment securities, to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91-day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk

identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero-coupon bonds and preferred stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock), and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued and traded at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero-coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include

structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2004, the State's agent loaned, on behalf of the State, certain securities held by the agent and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2004, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) **Cash Deposits** – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposits (in thousands)

Risk Category	Carrying Amount	Bank Balance	Fund
1 Insured (FDIC)	\$ 1,510	\$1,510	Various
Collateral held by State/State's agent	5,814	5,814	Various
2	4,115	4,115	Various
3	8,875	8,875	Various
Uncategorized:			
Undeposited cash	1,826		
Cash in U.S. Treasury	185,931		
Less: outstanding warrants	(52,449)		
Cash in MSU component units	6,443		
Cash in UM component units	3,294		
Total cash deposits	<u>\$165,359</u>		

As of June 30, 2004, the carrying amount of deposits for component units was \$81,383,853, and the bank balance was \$75,345,175. Of the carrying amount, \$75,345,175 was fully insured or collateralized with securities held by the component units or their agents in the unit's name, and \$6,488,678 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) **Cash Equivalents** – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents (in thousands)

	Risk Category 1			Carrying Amount	Fair Value	Fund
	Securities Not on Loan	On Loan for Securities Collateral	Not Categorized			
Asset-backed securities	\$940,831	\$-	\$-	\$ 940,831	\$ 940,844	Various
Government securities	182,257	-	-	182,257	181,052	Various
Repurchase agreements	71,848	-	-	71,848	71,848	Various
Variable-rate short term securities	504,982	-	-	504,982	504,931	Various
Direct investments:						
Money markets				30,433	30,433	Various
Total cash equivalents				<u>\$1,730,351</u>	<u>\$1,729,108</u>	
Securities lending collateral						
Investment pool			\$-	\$ -	\$ -	

As of June 30, 2004, local governments invested \$601,911,349 in STIP.

As of June 30, 2004, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$375,787,462.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to statutory restrictions for quality and size of holdings.

Table 3 - Equity In Pooled Investments (in thousands)

	Risk Category 1			Carrying Amount	Fair Value
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*		
MDEP:					
Common Stock Pool	\$1,616,462	\$ -	\$ 18,799	\$1,635,261	\$1,941,940
Equity Index Fund	544,162	-	-	544,162	596,835
DFA Small Cap Subtrust	260,000	-	-	260,000	323,104
SPIFF	39,638	-	-	39,638	40,405
TFBP:					
Corporate Asset-backed	61,013	-	-	61,013	60,172
Corporate Stocks	504,213	-	13,195	517,408	546,933
US Govt. Mortgage-backed	150,318	-	-	150,318	147,756
US Govt. Direct	225,257	2,532	144,491	372,280	385,438
Yankee Bonds	68,920	-	3,991	72,911	77,757
State and Local Government	9,893	-	-	9,893	9,894
RFBP:					
Corporate Asset-backed	57,411	-	-	57,411	57,044
Corporate Stocks	686,127	-	25,909	712,036	752,472
US Govt. Mortgage-backed	193,434	-	-	193,434	189,125
US Govt. Direct	293,921	-	168,298	462,219	488,067
Yankee Bonds	59,146	-	4,369	63,515	69,524
MTIP:					
BGI MSCI Europe Index	375,434	-	-	375,434	389,188
BOI Internal International	40,005	-	-	40,005	46,168
BGI Cash & Money Market	1	-	-	1	1
SPIFF	31,374	-	-	31,374	31,685
Schroder Capital Management	118,527	-	13,211	131,738	150,237
Pyford International	100,538	-	19,179	119,717	133,028
Nomura	87,496	-	717	88,213	103,631
MPEP:					
Private Equities	212,763	-	-	212,763	234,249
State Street SPIFF	23,948	-	-	23,948	24,230
Total pooled investments	5,760,001	2,532	412,159	6,174,692	6,798,883
Other pool assets (net)	-	-	-	77,584	77,584
Total equity in pooled investments	\$5,760,001	\$2,532	\$412,159	\$6,252,276	\$6,876,467
Securities lending collateral					
Investment pool			\$453,667	\$ 453,667	\$ 453,667

* At June 30, 2004, these underlying securities, with fair values of \$2,965,830 and \$441,171,420, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2004, component units of the State of Montana had equity in pooled investments with a book value of \$4,167,355,588 and a fair value of \$5,616,651,956.

D. Investments

Long-term investments are primarily administered by three state agencies. Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 71.86% of those investments; the Board of Housing, 9.41%; and the Department of Administration's Public Employees Retirement Board, 16.19% for the State's Deferred Compensation Plan and Defined Contribution Retirement Plan. The Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Commissioner of Higher Education, combined, manage 1.39% of total investments for bond-related activities. Additionally, the Montana University System manages 1.03% of total investments.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments (Risk Categories) (in thousands)

	Risk Category 1		Risk Category 2	Not Categorized*	Carrying Amount	Fair Value
	Securities Not on Loan	On Loan for Securities Collateral*				
Primary government						
Corporate bonds	\$ 1,137	\$ -	\$ -	\$ 31,745	\$ 32,882	\$ 33,937
Corporate asset-backed	12,217	-	-	-	12,217	12,062
Government securities	101,364	\$1,366	-	-	102,730	104,009
Government mortgage-backed	6,642	-	-	-	6,642	6,730
Total	\$121,360	\$1,366	\$ -	\$ 31,745	\$ 154,471	\$ 156,738
Component units/fiduciary funds						
Corporate bonds	\$255,712	\$ -	\$ -	\$ -	\$ 255,712	\$ 262,591
Corporate asset-backed	28,031	-	-	-	28,031	27,642
Government securities	95,179	-	-	185,935	281,114	285,227
Government mortgage-backed	51,047	-	-	-	51,047	51,798
Repurchase agreement	-	-	\$82,655	-	82,655	82,655
Other investments	-	-	-	15,387	15,387	15,312
Total	429,969	-	82,655	201,322	713,946	725,225
Total	\$551,329	\$1,366	\$82,655	\$233,067	\$ 868,417	\$ 881,963
Direct investments:						
Primary government						
Commercial loans					\$ 161,695	\$ 161,695
Other					999	1,007
MUS Workers Compensation					1,842	1,842
Total					\$ 164,536	\$ 164,544
Component units/fiduciary funds						
Real estate					\$ 16,093	\$ 16,242
Mortgages					123,619	123,621
Other					77,348	81,846
Deferred compensation					223,280	224,376
Defined contribution					18,087	20,480
VEBA					122	122
Investments of MSU component units					107,102	107,102
Investments of UM component units					125,446	125,446
Total					691,097	699,235
Total investments					\$1,724,050	\$1,745,742
Securities lending collateral						
Investment pool				\$226,700	\$ 226,700	\$ 226,700

* At June 30, 2004, the underlying securities, with fair values of \$1,328,020 and \$220,907,631, respectively, were loaned for securities and cash collateral under a securities lending agreement with the State's agent.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2004, follows (amounts in thousands):

A. Receivables

Receivables	Governmental Funds					Other Governmental
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	
Licenses and permits	\$ 8,126	\$ 330	\$ -	\$ -	\$ -	\$ -
Taxes	143,533	44,460	-	3,517	-	959
Charges for services/ fines/forfeitures	7,543	9,955	2,356	-	-	-
Investment income	1,696	5,850	-	4,339	5,977	3,932
Other	5,545	6,585	7,080	-	-	368
Total receivables	166,443	67,180	9,436	7,856	5,977	5,259
Less: allowance for doubtful accounts	(15,976)	(2,323)	-	-	-	-
Receivables, net	\$150,467	\$64,857	\$ 9,436	\$7,856	\$5,977	\$5,259

Receivables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Other Enterprise	Internal Service
Charges for services	\$1,992	\$ -	\$14,395	\$ 165
Investment income	-	736	35	56
Contributions/premiums	4,441	-	2,398	2,823
Other	-	9,176	134	200
Total receivables	6,433	9,912	16,962	3,244
Less: allowance for doubtful accounts	(222)	-	(107)	-
Receivables, net	\$6,211	\$9,912	\$16,855	\$3,244

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Other Governmental
Refunds	\$ 80,388	\$ -	\$ -	\$-	\$ -	\$ -
Tax distributions to other govt	-	23,727	-	-	-	-
Vendors/individuals	31,442	45,586	106,564	-	-	2,757
Payroll	10,587	11,042	4,553	-	-	64
Accrued interest	-	-	-	-	5,842	-
Other	348	1,157	943	-	-	12
Total	\$122,765	\$81,512	\$112,060	\$-	\$5,842	\$2,833

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Other Enterprise	Internal Service
Vendors/individuals	\$54	\$ 1	\$5,709	\$6,764
Payroll	-	13	429	1,753
Accrued interest	-	613	-	6
Other	-	-	4	15
Total	\$54	\$627	\$6,142	\$8,538

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2004, are reflected in the following table; intrafund transfers of capital assets have not been eliminated (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 300,246	\$ 22,755	\$ (7,280)	\$ 315,721
Construction work in progress	174,368	179,712	(175,011)	179,069
Capitalized collections	64,055	7,812	(1,846)	70,021
Total capital assets, not being depreciated	538,669	210,279	(184,137)	564,811
Capital assets, being depreciated				
Infrastructure	2,821,593	189,668	(63,542)	2,947,719
Land improvements	11,178	1,157	(388)	11,947
Buildings/improvements	323,582	26,267	(21,030)	328,819
Equipment	235,783	29,773	(19,648)	245,908
Other	3,323	1,224	(1,152)	3,395
Total capital assets, being depreciated	3,395,459	248,089	(105,760)	3,537,788
Less: accumulated depreciation for:				
Infrastructure	(1,447,182)	(1,374,944)	1,411,285	(1,410,841)
Land improvements	(1,170)	(824)	532	(1,462)
Buildings/improvements	(145,103)	(10,425)	5,879	(149,649)
Equipment	(140,655)	(22,173)	13,852	(148,976)
Other	(2,527)	(1,752)	1,299	(2,980)
Total accumulated depreciation	(1,736,637)	(1,410,118)	1,432,847	(1,713,908)
Total capital assets, being depreciated, net	1,658,822	(1,162,029)	1,327,087	1,823,880
Intangible assets	27,836	8,312	(15,711)	20,437
Governmental activity capital assets, net	\$2,225,327	\$ (943,438)	\$1,127,239	\$2,409,128

Primary Government (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	71	246	(63)	254
Total capital assets, not being depreciated	871	246	(63)	1,054
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	1,381	6	-	1,387
Buildings/improvements	6,098	-	-	6,098
Equipment	9,881	846	(851)	9,876
Other	-	-	-	-
Total capital assets, being depreciated	18,244	852	(851)	18,245
Less: accumulated depreciation for:				
Infrastructure	(459)	(92)	63	(488)
Land improvements	(1,092)	(9)	-	(1,101)
Buildings/improvements	(3,336)	(275)	87	(3,524)
Equipment	(5,221)	(1,831)	850	(6,202)
Other	-	-	-	-
Total accumulated depreciation	(10,108)	(2,207)	1,000	(11,315)
Total capital assets, being depreciated, net	8,136	(1,355)	149	6,930
Intangible assets	1,188	39	(286)	941
Business-type activity capital assets, net	\$10,195	\$(1,070)	\$ (200)	\$ 8,925

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	\$ 1,562
Public safety/corrections	6,085
Transportation (including depreciation of the highway system maintained by the State)	97,490
Health/social services	3,088
Education/cultural	587
Resource/recreation/environment (including depreciation of the State's dams).	4,118
Economic development/assistance	866
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	10,438
Total depreciation expense – governmental activities	\$124,234

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	\$ 102
State Lottery	900
Economic Development Bonds	2
General Government Services	77
Prison Funds	318
Total depreciation expense – business-type activities	\$1,399

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	\$ 4,240	\$ 7,001	\$ -	\$ 11,241
Construction work in progress	5,787	24,094	-	29,881
Capitalized collections	7,780	14,793	-	22,573
Livestock for educational purposes	2,758	-	-	2,758
Total capital assets, not being depreciated	20,565	45,888	-	66,453
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,129	9,368	-	22,497
Buildings/improvements	289,418	310,779	-	600,197
Equipment	86,526	47,273	3,226	137,025
Other	55,701	46,547	-	102,248
Total capital assets, being depreciated	476,901	413,968	3,226	894,095
Less: accumulated depreciation	(259,555)	(221,715)	(1,987)	(483,257)
Total capital assets, being depreciated, net	217,346	192,253	1,239	410,838
Intangible assets	1,406	809	1,186	3,401
Capital assets (net) of MSU component units	6,817	-	-	6,817
Capital assets (net) of UM component units	-	5,666	-	5,666
Discretely presented component units				
Total capital assets, net	\$246,135	\$244,615	\$2,425	\$493,175

NOTE 6. RETIREMENT SYSTEMS**Defined Contribution Plans**

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under

the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.027% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered payroll	\$ 133,141
Total payroll	290,673
Employer contributions	\$ 6,535
Percent of covered payroll	4.91%
Employee contributions	\$ 9,355
Percent of covered payroll	7.03%

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to join the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

Participant rights are fully vested in their accounts at the time of deposit in regard to participant contributions and interest. Employer contributions and interest are vested after 5 years of service.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of \$1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

An inter-entity loan in the amount of \$114,000 was made to the PERS-DCRP from the defined benefit education fund on August 18, 2003, to help cover the costs of the DCRP expenses. The term of this loan is for two years, and the interest rate to be repaid to the defined benefit education fund is the same as STIP. The first repayment of \$28,500 plus interest was made in June 2004, in advance of the actual due date. The remaining principal balance of the inter-entity loan is \$85,500 and is due in August 2005.

For information on the repayment schedules on these loans, please see the separately issued PERS-DCRP financial statements.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2004, the net assets of the plan were \$224,748,963.

The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRS-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS-DBRP), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education fund.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERB, SRS, MPORS, HPORS, FURS, GWPORS, JRS, 457, and TRS by employer type at June 30, 2004, follows:

	Retirement System/Plan									
	PERS- DBRP	PERS- DCRP	SRS	MPORS	HPORS	FURS	GWPORS	JRS	457	TRS
Employers										
State agencies	35	28	1		1	1	5	1	35	8
Counties	55	44	55							
Cities/towns	94	37		22		14				
Colleges/universities	5	5					3		6	5
School districts	242	88								372
Other	95	27							2	
Total	526	229	56	22	1	15	8	1	43	385

B. Plan Descriptions

The State contributes to and/or administers ten plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing, multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing, multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1999 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS-DBRP, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a maximum benefit increase of 3% each January, inclusive of all other adjustments to the member's benefit, if the recipient has been receiving a retirement benefit for at least 12 months.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code

Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997, and members electing GABA coverage. The employer contribution rate is 36.33% of active officer's salaries. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from a portion of the fees collected from drivers' license and duplicate drivers' license applications. For members, there is no minimum age, but minimum service is 20 years for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the highest average compensation. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which insure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit paid nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump-sum payment distributed in September. This lump-sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in September 2004 was \$2,310. This enhancement is limited to non-GABA members.

JRS – Judges Retirement System – This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district court, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries while the State contributes 25.81% of active judges' salaries. Rights are vested after five years of membership service. Benefit eligibility is age 60 with at least 5 years of service, or any age with 5 years of service actuarially reduced with

involuntary terminations. The monthly retirement benefit formula is 3 1/3% per year of the member's highest average compensation for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15 years. For non-GABA members, the percentages are based on the member's current salary, instead of the highest average compensation.

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Systems

PERS-DBRP – Public Employees Retirement System – Defined Benefit Retirement Plan – This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions are 6.9% of covered compensation. Each state agency and university system employer contributed 6.9% of PERS-covered payroll. Participating local governments and school district employers contributed 6.8% of PERS-covered payroll. The State contributed 0.1% for local governments and school district employers from the State General Fund. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service, regardless of age. Actuarially reduced benefits may be taken with 25 years of service, or at age 50 with at least five years of service. Monthly retirement benefits vary based on years of service: the benefit is determined by taking 1.785% (for employees with less than 25 years of service), or 2% (for employees with at least 25 years of service) times the number of years of service times the highest average compensation times any early retirement reduction, if necessary. Members' rights are vested after five years of membership service.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 1.19% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

TRS – Teachers Retirement System – This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of

the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Benefit eligibility is age 60 with at least 5 years of creditable service, or at any age with at least 25 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2033, for the amount that would not be paid for by contributions of university system members. The fiscal year 2004 contribution percentage of the total compensation of employees participating in the ORP program was 4.04% and the contribution was \$4.7 million.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement systems be funded on actuarially sound basis. The system's actuary has determined that as of July 1, 2004, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost of the system and to amortize the unfunded actuarial liability over an open period of 30 years. The unfunded actuarial accrued liability of \$873.5 million is included in the Schedules of Funding Progress. Based on the results of the July 1, 2004 valuation, the TRS Board will recommend options to the Legislature that are considered necessary to remain actuarially sound.

In addition, because actuarial gains and losses are smoothed over five years, only one-fifth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2004, leaving almost \$131 million in unrecognized investment losses, which must be recognized over the next three to four years. Therefore, to remain actuarially sound for future years, the retirement system will need to incur future gains that would result from a significant recovery in the investment market, a reduction in liabilities, additional increases in contribution rates, or any combination thereof.

SRS – Sheriffs Retirement System – This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs. The member contribution is 9.245% of salary; the employer contribution is 9.535% of SRS-covered payroll. Benefit eligibility is age 50 with at least 5 years of service, actuarially reduced, or 20 years of service regardless of age. The service retirement

benefit is calculated at 2.5% of the highest average compensation for each year of membership service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of membership service.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 2.15% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

GWPORS – Game Wardens & Peace Officers Retirement System – This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 10.56% of salary while the State contributes 9.0% of covered active employee salaries. Benefit eligibility is age 50 with at least 20 years of service, or age 55 with at least 5 years of service. The yearly retirement benefit formula is 2.5% times the number of years of service times the highest average compensation. Rights are vested after five years of membership service.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 0.23% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

(3) State as a Nonemployer Contributor to Cost-Sharing, Multiple-Employer Systems

MPORS – Municipal Police Officers Retirement System – The system, established in 1974 and governed

by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation. The member contribution is 5.8% of salary for members employed prior to July 1, 1975; 7% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 8.5% of salary for members employed after June 30, 1979, and prior to July 1, 1997; and 9% for members hired on or after July 1, 1997, and members electing GABA. Employer contributions are 14.41% of MPORS-covered payroll. The State contributes 29.37% of compensation paid to members. The State's contribution is funded from the General Fund. Rights are vested after five years of membership service. Benefit eligibility is age 50 with at least 20 years of service, or age 55 with at least 5 years of service. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

Beginning July 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends they will again accrue membership service and service credit and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a cost-sharing defined benefit plan with a special funding situation.

The member contribution is 9.5% of compensation for members hired prior to July 1, 1997; and 10.7% for members hired after June 30, 1997, and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The state contribution is 32.61% of total annual compensation for all firefighters and is paid out of the General Fund. Benefit eligibility is 20 years regardless of age, or age 50 with at least 5 years of service. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation, plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% of final average compensation. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed firefighter in the city where last employed. Rights are vested after five years of membership service.

(4) State as a Nonemployer Contributor

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation. The state contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Benefit eligibility is age 55 with at least 20 years of service (full benefit available), or age 60 with at least 10 years of service (partial benefit available).

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective 7/1/2003).

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

E. Long-term Contracts for Contributions

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (Section 19-2-706, MCA) allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2004, 311 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2003 totaled \$423,969. June 30, 2004, outstanding balances were \$215,459.

F. Actuarial Data

Actuarial valuations are performed every two years. Milliman prepared the July 2004 actuarial reports for PERS and TRS. Mellon was the auditing actuary for all retirement system actuarial reports prepared by Milliman & Robertson. Milliman & Robertson prepared the July 2002 actuarial reports for the retirement systems, including TRS. Milliman & Robertson of Seattle, WA, performed the actuarial valuation for TRS for July 1, 2000. Milliman & Robertson, of Portland, OR, prepared the July 1, 2000 actuarial reports for the retirement systems, excluding TRS. Further disclosure can be found in Note 18.

G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems

	HPORS	JRS
Annual pension cost	\$3,198	\$1,136
Contributions		
Employer	\$2,859	\$1,136
Employee	743	443
License and registration fees	348	
Actuarial valuation date	7/01/04	7/01/04
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	19.1 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

Single Employer Systems

Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Obligation
HPORS			
06/30/02	3,047	101.3%	NONE
06/30/03	3,191	100.9%	NONE
06/30/04	3,198	100.3%	NONE
JRS			
06/30/02	1,032	100.0%	NONE
06/30/03	1,052	100.0%	NONE
06/30/04	1,137	100.0%	NONE

Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
PERS		
06/30/02	55,369	100.5%
06/30/03	58,114	99.1%
06/30/04	57,036	101.0%
MPORS		
06/30/02	9,732	101.1%
06/30/03	10,196	101.0%
06/30/04	10,740	101.4%
FURS		
06/30/02	8,432	98.1%
06/30/03	8,740	100.8%
06/30/04	9,409	100.0%
SRS		
06/30/02	2,338	102.1%
06/30/03	2,435	101.7%
06/30/04	2,610	103.6%
GWPORS		
06/30/02	1,544	103.3%
06/30/03	1,803	101.8%
06/30/04	1,930	104.7%
TRS		
06/30/02	51,519	100.0%
06/30/03	53,277	100.0%
06/30/04	55,774	100.0%

H. Schedules of Funding Progress

Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
07/01/02	81,734	94,850	13,116	86.17%	7,536	174.04%
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
JRS						
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%
07/01/02	44,963	30,882	(14,081)	145.60%	4,000	(352.03)%
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%

Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
07/01/02	3,076,781	3,077,764	983	99.97%	808,747	0.12%
07/01/04	3,047,287	3,514,085	466,798	86.72%	832,847	56.05%
MPORS						
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
07/01/02	143,516	226,827	83,311	63.27%	22,229	374.79%
07/01/04	149,510	260,094	110,584	57.48%	24,531	450.79%
FURS						
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
07/01/02	136,392	197,946	61,554	68.90%	17,953	342.86%
07/01/04	142,109	227,599	85,490	62.44%	20,248	422.21%
SRS						
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
07/01/02	138,590	121,625	(16,965)	113.95%	24,521	(69.19)%
07/01/04	141,022	148,608	7,586	94.90%	27,373	27.71%
GWPORS						
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
07/01/02	38,730	39,109	379	99.03%	17,151	2.21%
07/01/04	45,210	50,310	5,100	89.86%	21,442	23.79%
TRS						
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%
07/01/02	2,484,800	2,980,100	495,300	83.4%	563,200	87.9%
07/01/04	2,485,700	3,359,200	873,500	74.0%	600,700	145.4%

Nonemployer Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A
07/01/02	19,254	26,808	7,554	71.82%	N/A	N/A
07/01/04	20,058	28,680	8,622	69.94%	N/A	N/A

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2004, 70 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established retiree medical premiums vary between \$189 and \$560 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$28.60 and \$46.60, and vision premiums vary between \$7.85 and \$20.40 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2004, 3,259 retirees were covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. Vision services are

provided at prices ranging from a \$10 copay to a \$120 allowance depending on the services obtained and the network status of the provider. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$17,467,897 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$13,816,553 leaving \$3,651,344 of claims paid in excess of premium revenue received by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$216 and \$566 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$575 deductible for non-Medicare-eligible retirees, the MUS plan reimburses 65% to 80% of the first \$10,000 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 65% to 80% for the first \$5,000 in medical claims and 100% thereafter. There is an optional \$1500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (54 enrollees). After the \$1500 annual deductible, the plan pays 65 to 80% of the first \$8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2004, 1,392 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2004, estimated expenditures of \$5,651,448 were recognized for postemployment health care benefits. Of this amount, \$5,566,107 was paid by retirees through premiums, and the balance of \$85,341 was paid by the MUS.

NOTE 8. RISK MANAGEMENT

There are four primary government public entity risk pools that are reported within the enterprise fund type and two component unit public entity risk pools. Primary government pools include Hail Insurance, Subsequent Injury, the Montana University System (MUS) Group Benefits Plan, and the Montana University System Workers Compensation funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,026 policies during the 2004 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$94,570 based on estimated claims through June 30, 2004. Any crop

insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,389 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2004, the amount of this liability was estimated to be \$2,363,565.

(3) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Blue Cross/Blue Shield of Montana is the claims administrator for the self-insured indemnity plan and an HMO plan. New West Health Services and Peak administers claims for the two other self-insured plans. Managed Care Montana (APS) has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Mellon Consultants and estimated to be \$4,662,553 as of June 30, 2004, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(4) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During 2004, the program ceded \$151,286 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$1,622,251 for estimated claims in 2004. Of that amount, \$845,429 was for claims incurred but not reported. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(5) State Compensation Insurance (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2004, approximately 26,963 employers were insured with the New Fund. Anticipated investment

income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2004, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2004, \$452,115,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2004, was \$1,062,259. For the fiscal year ended June 30, 2004, \$1,474,338 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(6) State Compensation Insurance (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2004, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2004, \$108,500,000 of unpaid claims and claim adjustment expenses were reported at a net present value of \$80,778,000, discounted at a 5.25% rate.

(7) **Changes in Claims Liabilities For the Past Two Years** – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	<u>Primary Government</u>				<u>MUS Group Benefits</u>	
	<u>Hail Insurance</u>		<u>Subsequent Injury</u>			
	2004	2003	2004	2003	2004	2003
Unpaid claims and claim adjustment expenses at beginning of year	\$ 298	\$ 43	\$2,364	\$2,100	\$ 3,444	\$ 2,982
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	1,164	1,696	-	-	35,451	33,675
Increase (decrease) in provision for insured events of prior years	(184)	(6)	205	797	1,219	461
Total incurred claims and claim adjustment expenses	980	1,690	205	797	36,670	34,136
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(885)	(1,392)	(29)	(35)	(35,451)	(33,674)
Claims and claim adjustment expenses attributable to insured events of prior years	(298)	(43)	(177)	(498)	-	-
Total payment	(1,183)	(1,435)	(206)	(533)	(35,451)	(33,674)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 95	\$ 298	\$2,363	\$2,364	\$ 4,663	\$ 3,444

	<u>Primary Government</u>		<u>Component Units</u>			
	<u>MUS Workers Compensation Program</u>		<u>State Compensation Insurance (New Fund)</u>		<u>State Compensation Insurance (Old Fund)</u>	
	2004		2004	2003	2004	2003
Unpaid claims and claim adjustments expenses at beginning of year	\$ -		\$413,400	\$346,400	\$113,181	\$128,902
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current year	2,174		136,059	116,598	-	-
Increase (decrease) in provision for insured events of prior years	-		13,568	35,366	8,215	(1,448)
Total incurred claims and claim adjustment expenses	2,174		149,627	151,964	8,215	(1,448)
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(552)		(34,575)	(22,982)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	-		(76,337)	(61,982)	(12,896)	(14,273)
Total payments	(552)		(110,912)	(84,964)	(12,896)	(14,273)
Total unpaid claims and claim adjust. exp. at end of the year	\$1,622		\$452,115	\$413,400	\$108,500	\$113,181

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as

of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

	MUS Workers Compensation Program 2004
1. Premiums and investment revenue	
Earned	\$2,456
Ceded	151
Net earned	<u>\$2,305</u>
2. Unallocated expenses including overhead	\$8,637
3. Estimated losses and expenses end of accident year	
Incurred	\$2,174
Ceded	-
Net incurred	<u>\$2,174</u>
4. Net paid (cumulative) as of:	
End of policy year	\$ 552
5. Re-estimated ceded losses and expenses	\$ -
6. Re-estimated net incurred losses and expense:	
End of policy year	\$2,174
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ -

(State Compensation Insurance (New Fund) Table presented on next page)

	State Compensation Insurance (New Fund)									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Premiums and investment revenue										
Earned	\$193,096	\$136,939	\$104,260	\$89,522	\$81,215	\$89,885	\$114,225	\$127,292	\$161,713	\$121,494
Ceded	269	519	348	303	260	855	2,952	(465)	5,654	6,563
Net earned	\$192,827	\$136,420	\$103,912	\$89,219	\$80,955	\$89,030	\$111,273	\$127,757	\$156,059	\$114,931
2. Unallocated expenses including overhead	\$ 14,463	\$ 17,554	\$ 12,736	\$14,525	\$19,136	\$22,306	\$ 27,035	\$ 29,844	\$ 33,842	\$ 42,088
3. Estimated losses and expenses end of accident year										
Incurred	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705
4. Net paid (cumulative) as of:										
End of policy year	\$ 18,137	\$ 15,818	\$ 12,589	\$12,943	\$13,723	\$13,177	\$ 14,140	\$ 16,693	\$ 22,982	\$ 26,123
One year later	40,473	32,890	28,451	28,222	29,976	29,218	32,888	38,185	48,861	
Two years later	52,073	42,361	35,706	35,753	39,298	37,555	45,218	52,359		
Three years later	58,722	47,283	39,860	41,004	45,748	43,649	55,248			
Four years later	62,419	50,267	43,105	44,478	49,984	48,322				
Five years later	65,919	52,791	46,478	47,584	54,212					
Six years later	68,541	54,962	48,505	50,188						
Seven years later	70,816	57,654	50,402							
Eight years later	72,803	59,193								
Nine years later	74,989									
5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ 6,477	\$ 582	\$ 2,311	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705
One year later	124,123	88,923	67,235	64,308	64,348	66,421	71,094	86,799	110,532	
Two years later	107,074	77,286	59,054	60,467	66,660	66,662	81,053	91,241		
Three years later	95,456	73,864	60,811	61,989	69,345	70,302	88,157			
Four years later	94,517	74,022	64,439	64,944	72,435	72,492				
Five years later	92,231	73,197	59,079	67,312	73,710					
Six years later	91,771	74,329	60,528	67,772						
Seven years later	92,637	76,955	60,630							
Eight years later	93,637	76,849								
Nine years later	94,036									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (70,592)	\$ (18,218)	\$ (15,437)	\$ 2,789	\$ 9,065	\$ 6,535	\$ 19,890	\$ 9,681	\$ 379	\$ -

B. Entities Other Than Pools

(1) Group Employee Comprehensive Medical and Dental Plan – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2004, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were \$11,195,548 based on a formula provided by Mellon Consultants, a consulting actuarial firm, of which \$5,864,318 is estimated to be paid in fiscal year 2005.

(2) Property & Casualty Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the \$250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.6 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1994 through June 30, 2004, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2004, estimated claims liability of \$25,557,823 is reported in the accompanying financial statements.

(3) Changes in Claims Liabilities For the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		Prop. & Casualty Insurance	
	2004	2003	2004	2003
Amount of claims liabilities at the beginning of each fiscal year	\$ 11,487	\$ 9,164	\$30,927	\$29,848
Included claims:				
Provision for insured events of the current year	70,164	72,085	7,723	7,544
Increases (decreases) in provision for insured events of prior years	(290)	2,323	(8,651)	(602)
Total incurred claims	69,874	74,408	(928)	6,942
Payments:				
Claims attributable to insured events of the current year	(64,699)	(66,300)	(816)	(742)
Claims attributable to insured events of prior years	(5,467)	(5,785)	(3,625)	(5,121)
Total payments	(70,166)	(72,085)	(4,441)	(5,863)
Total claims liability at end of each fiscal year	\$ 11,195	\$ 11,487	\$25,558	\$30,927

NOTE 9. COMMITMENTS**A. Highway Construction**

At June 30, 2004, the Department of Transportation had contractual commitments of approximately \$141.8 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2004, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$10.3 million for capital projects construction. The primary government will fund \$6.9 million of these projects, with the remaining \$3.4 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2004, the BOI had committed but not yet purchased \$69,281,764 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$12,021,150 for loans as of June 30, 2004.

The BOI makes firm commitments to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2004, the BOI had committed but not yet purchased from Montana lenders, mortgages totaling \$124,550. Lenders had reserved no funding for mortgages as of June 30, 2004.

D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

Primary Government	Amount
<u>Enterprise funds</u>	
HUD Section 8 Housing	\$ 25
Liquor Warehouse	12
Historical Society Publications	4
Subtotal-enterprise funds	<u>\$ 41</u>
<u>Internal service funds</u>	
DEQ Indirect Cost Pool	\$335
Admin Supply	205
Building and Grounds	194
Info Tech Services Division	87
FWP Equipment	59
Payroll Processing	2
Subtotal-internal service funds	<u>\$882</u>
Total-primary government	<u>\$923</u>

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2004, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units		
	Governmental Activities	Montana State University	University of Montana	Total
2005	\$ 861	\$33	\$ 437	\$ 470
2006	768	25	241	266
2007	522	11	205	216
2008	180	-	38	38
2009	33	-	20	20
2010-2014	256	-	-	-
Total minimum pmts	2,620	69	941	1,010
Less: interest	(288)	(8)	(113)	(121)
Present value of minimum payments	\$2,332	\$61	\$ 828	\$ 889

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2004 totaled \$12,358,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2005	\$12,241	\$1,459
2006	10,296	1,000
2007	9,189	723
2008	8,045	642
2009	7,523	510
2010-2014	24,748	2,180
2015-2019	9,520	1,726
2020-2024	1,119	-
Total future rental payments	\$82,681	\$8,240

NOTE 11. STATE DEBT**A. General Information**

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The State issued a tax and revenue anticipation note (TRAN) during fiscal year 2004. The proceeds of the tax anticipation note were used to meet anticipated cash flow deficits during the fiscal year. The TRAN was fully repaid by the end of the fiscal year. The following schedule summarizes the above activity for the year ended June 30, 2004 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
TRAN	\$-	\$73,400	\$73,400	\$-

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$120 million as amended by the 2003 Legislature. Previously, INTERCAP bonds could not aggregate more than \$80 million through June 30, 2011 and then \$75 million thereafter. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2004, were as follows (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Balance June 30, 2004</u>
1992	\$6,500	\$ 6,055
1994	7,500	6,895
1995	7,500	7,080
1997	10,000	9,740
1998	12,500	12,285
2000	15,000	15,000
2003	15,000	15,000
2004	18,500	18,500
Total		<u>\$90,555</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2004 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Demand bonds	\$72,190	\$18,500	\$135	\$90,555

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2004, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (11)	Principal Payments		Balance June 30, 2004
				FY 2005	In Year of Maturity (7)	
General obligation bonds						
Wastewater Treatment Works						
Revolving Fund	1994B	2,200	4.2-6.1	95	180 (2016)	1,590
Long-Range Bldg Program	1994C	21,955	5.125-7.0	1,000	1,000 (2005)	1,000
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	200	200 (2005)	200
Energy Conservation Program (2)	1996A	1,650	3.5-4.4	185	195 (2006)	380
Wastewater Treatment Works						
Revolving Fund	1996C	2,765	3.75-5.75	135	120 (2017)	2,040
Renewable Resource Program (1)	1997A	2,000	6.8-8.0	120	210 (2013)	1,435
Long-Range Bldg Program	1997B	12,640	4.5-5.0	830	595 (2018)	8,345
Wastewater Treatment Works						
Revolving Fund	1998A	3,510	3.75-5.15	140	260 (2019)	2,885
Long-Range Bldg Program (16)	1998B	34,545	4.2-5.1	1,430	2,555 (2018)	26,980
Information Technology	1998C	41,390	4.5-5.0	3,600	4,075 (2008)	15,330
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	105	1,720 (2015)	14,165
Energy Conservation Program (2)	1998E	1,250	3.6-4.6	130	150 (2008)	555
Renewable Resource Program (1)	1999	1,035	6.0-6.5	55	105 (2015)	845
Long-Range Bldg Program	1999C	16,990	4.0-5.0	665	1,250 (2019)	13,785
Drinking Water Revolving Fund (9)	1998F	3,065	3.6-4.85	130	230 (2019)	2,595
Drinking Water Revolving Fund (9)	2000A	2,990	4.25-5.6	100	240 (2021)	2,705
Water Pollution Control Revolving						
Fund (10)	2000B	3,325	4.25-5.6	115	270 (2021)	3,020
Long-Range Bldg Program	2000C	17,195	5.0-5.55	580	1,320 (2020)	14,385
Information Technology	2000D	18,000	5.0-5.25	1,735	1,830 (2006)	3,565
Long-Range Bldg Program	2001B	11,430	4.1-5.75	400	830 (2021)	9,875
Information Technology	2001C	1,600	3.85-4.2	145	185 (2011)	1,145
Energy Conservation Program (2)	2001D	1,250	3.85-4.2	115	145 (2011)	890
Renewable Resource Program (1)	2001E	1,040	5.2-6.8	50	105 (2017)	950
Drinking Water Revolving Fund (9)	2001G	3,190	4.0-5.0	115	235 (2022)	2,985
Water Pollution Control Revolving						
Fund (10)	2001H	2,690	4.0-5.0	100	200 (2022)	2,515
Long-Range Bldg Program	2002B	10,475	3.35-4.7	405	730 (2023)	10,110
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	80	200 (2023)	2,435
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,250	1,685 (2014)	14,455
Long-Range Bldg Program	2003A	9,730	2.375-4	320	655 (2024)	9,730
Energy Conservation Program (2)	2003B	1,250	2.0-3.0	105	145 (2014)	1,250
Renewable Resource Program						
Refunding (1)	2003C	1,970	1.45-5.25	440	90 (2019)	1,970
Water Pollution Control Revolving						
Fund (10)	2003D	2,730	2.0-3.75	145	225 (2019)	2,730
Drinking Water Revolving Fund (9)	2003E	1,675	2.0-3.75	90	140 (2019)	1,675
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	1,970	2,310 (2017)	26,610
Information Technology Refunding	2003H	8,725	2.0-40	165	2,225 (2010)	8,725
Water Pollution Control Revolving						
Fund (10)	2004A	2,665	2.0-3.8	-	230 (2020)	2,665
Long-Range Bldg Program	2004B	3,125	3.0-4.75	-	170 (2025)	3,125
Total general obligation bonds		\$311,420		\$17,245		\$219,645
Special revenue bonds						
Water Conservation (3)		\$ 50	5.0	\$ 2	\$ 1 (2012)	\$ 18
Renewable Resource Program						
Refunding (4)	1996A	14,985	3.7-5.2	1,145	110 (2017)	7,060
State Hospital Project (6)	1997	25,915	4.0-5.05	805	1,820 (2022)	22,360
Renewable Resource Program (4)	1997A	1,205	6.0-7.3	45	110 (2018)	995

Governmental Activities	Series	Amount Issued	Interest Range (%) (11)	Principal Payments		Balance June 30, 2004
				FY 2005	In Year of Maturity (7)	
Renewable Resource Program (4)	1997B	2,660	3.75-5.375	105	210 (2018)	2,125
Renewable Resource Program (4)	2001A	420	3.65-5.59	15	30 (2021)	375
Renewable Resource Program (4)	2001B	1,750	5.2-7.1	55	150 (2021)	1,605
Renewable Resource Program Refunding (4)	2001C	12,155	2.55-4.3	1,750	790 (2013)	6,700
Broadwater Power Proj Refunding (4)	2001D	21,450	2.25-4.7	1,100	1,795 (2018)	19,480
Renewable Resource Program (4)	2001E	885	2.1-4.85	35	65 (2022)	825
Renewable Resource Program (4)	2001F	900	3.3-6.2	30	75 (2022)	850
Renewable Resource Program (4)	2003A	3,000	1.05-4.05	110	215 (2024)	3,000
Developmental Center Project Refunding (6)	2003	11,510	3.0-5.0	550	970 (2019)	10,975
Total special revenue bonds		<u>\$ 96,885</u>		<u>\$ 5,747</u>		<u>\$ 76,368</u>
Notes payable (17)						
Middle Creek Dam Project (5)		\$ 3,272	8.125	\$ 46	207 (2034)	\$ 2,885
Tongue River Dam Project (8)		11,300	-	290	290 (2038)	9,851
Dept of Corrections Resident Accounting System Loan (10)		320	5.73	71	71 (2005)	71
Total notes payable		<u>\$ 14,892</u>		<u>\$ 407</u>		<u>\$ 12,807</u>
Subtotal governmental activities, before deferred balances						308,820
Deferred amount on refunding						(5,438)
Unamortized discount						(161)
Unamortized premium						1,880
Total governmental activities		<u>\$423,197</u>		<u>\$23,399</u>		<u>\$305,101</u>
Business-type Activities						
Bonds/notes payable						
<u>Economic Development Bonds (12)</u>						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (13)	1998	\$ 4,976	6.60-7.75	\$ 325	130 (2014)	\$ 1,204
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (14)	1991	6,234	4.75-6.5	294	294 (2005)	294
Conservation Reserve Enhancement Program (CRP Bonds) (15)		4,789	6-8	1,053	377 (2009)	4,789
Subtotal economic dev bonds		<u>15,999</u>		<u>1,672</u>		<u>6,287</u>
MUS Workers Compensation Bond Payable		2,050	2.8	395	430 (2008)	1,655
Total business-type activities		<u>\$ 18,049</u>		<u>\$ 2,067</u>		<u>\$ 7,942</u>

- (1) All Water Development Program Bonds and the Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$230,812 of interest owed.
- (6) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (7) Year of maturity refers to fiscal year.
- (8) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (9) Provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water system development loans to state political subdivisions.
- (10) Norwest loan to provide funds for the development of a Y2K-compliant resident accounting system.
- (11) The interest range is over the life of the obligation.

- (12) Economic Development Bonds (EDB) & Municipal Finance Consolidation Act Bonds (MFCAB) – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (13) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (14) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana school districts. The School District Refunding Bonds, and the interest thereon, are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal of or interest on the bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.
- (16) The interest range on general obligation bond 1998B has been corrected. It was previously misstated at 3.5-4.85.
- (17) At the beginning of fiscal 2004, the INTERCAP loan balances were reclassified to advances from other funds.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2004, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 17,245	\$ 8,991	\$ 5,747	\$ 3,337	\$ 407	\$ 50
2006	18,025	8,324	5,502	3,128	337	45
2007	18,250	7,595	4,347	2,937	339	44
2008	18,695	6,862	4,152	2,765	341	44
2009	14,410	6,195	4,933	2,568	342	43
2010-2014	68,675	22,363	22,931	9,746	1,743	202
2015-2019	51,560	8,406	21,820	4,545	1,859	175
2020-2024	12,615	1,045	6,936	688	1,951	138
2025-2029	170	4	-	-	2,070	93
2030-2034	-	-	-	-	2,259	36
2035-2039	-	-	-	-	1,159	-
Total	\$219,645	\$69,785	\$76,368	\$29,714	\$12,807	\$870

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2005	\$1,672	\$ 436	\$ 395	\$46
2006	1,204	337	410	35
2007	1,161	249	420	24
2008	1,228	164	430	12
2009	463	74	-	-
2010-2014	559	114	-	-
Total	\$6,287	\$1,374	\$1,655	\$117

Debt service requirements of discretely presented component units at June 30, 2004, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 7,782	\$ 32,604	\$ 4,937	\$ 3,158	\$ 3,650	\$ 7,002
2006	10,066	32,261	4,988	2,928	4,681	6,753
2007	10,704	31,848	4,022	2,712	4,872	6,588
2008	11,255	31,390	2,943	3,788	5,057	6,416
2009	12,230	30,877	2,736	3,982	5,078	6,237
2010-2014	70,900	144,835	17,024	16,395	25,828	28,146
2015-2019	92,198	126,999	24,760	8,798	32,291	21,530
2020-2024	117,775	97,388	20,215	2,516	42,155	11,659
2025-2029	146,340	61,542	2,085	119	13,730	2,346
2030-2034	116,760	23,043	-	-	4,565	508
2035-2039	23,305	4,948	-	-	-	-
2040-2044	9,730	917	-	-	-	-
Total	\$629,045	\$618,652	\$83,710	\$44,396	\$141,907	\$97,185

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$227,625	\$ 14,515	\$ 22,495	\$219,645	\$17,245	\$202,400
Special revenue bonds	85,070	11,510	20,212	76,368	5,747	70,621
Notes payable (2)	13,210	-	403	12,807	407	12,400
	325,905	26,025	43,110	308,820	23,399	285,421
Deferred amount on refunding	(4,594)	(1,491)	(647)	(5,438)	-	(5,438)
Unamortized discount	(182)	-	(21)	(161)	-	(161)
Unamortized premium	1,590	477	187	1,880	-	1,880
Total bonds/notes payable	322,719	25,011	42,629	305,101	23,399	281,702
Other liabilities						
Lease/installment purchase payable (3)	3,277	2,382	3,327	2,332	740	1,592
Compensated absences payable (1)	71,133	48,407	44,535	75,005	44,528	30,477
Early retirement benefits payable (1)	316	54	155	215	38	177
Arbitrage rebate tax payable (1)	147	22	92	77	46	31
Estimated insurance claims (1)	42,413	77,887	83,547	36,753	14,063	22,690
Total other liabilities	117,286	128,752	131,656	114,382	59,415	54,967
Total governmental activities						
Long-term liabilities	\$440,005	\$153,763	\$174,285	\$419,483	\$82,814	\$336,669
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 9,266	\$ 100	\$ 3,079	\$ 6,287	\$ 1,672	\$ 4,615
State Lottery	1,110	-	1,110	-	-	-
MUS Workers Compensation	-	2,050	395	1,655	395	1,260
Total bonds/notes payable	10,376	2,150	4,584	7,942	2,067	5,875
Other liabilities						
Compensated absences payable	1,097	797	666	1,228	665	563
Arbitrage rebate tax payable	170	56	86	140	84	56
Estimated insurance claims	6,105	40,214	37,576	8,743	5,341	3,402
Total other liabilities	7,372	41,067	38,328	10,111	6,090	4,021
Total business-type activities						
Long-term liabilities	\$ 17,748	\$ 43,217	\$ 42,912	\$ 18,053	\$ 8,157	\$ 9,896

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.
- (2) Governmental activities notes payable beginning balance has been reduced by \$8,089,000 to reflect that INTERCAP loans payable have been reclassified to advances from other funds.
- (3) Governmental activities lease/installment purchase payable beginning balance has been reduced by \$9,000 to reflect a reclassification to advances from other funds.

Long-term liability activity of discretely presented component units for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	\$ 624,089	\$164,879	\$158,013	\$ 630,955	\$ 7,782	\$ 623,173
Montana State University (MSU) (1)	90,304	19,326	22,376	87,254	4,937	82,317
University of Montana (UM) (1)	132,050	40,946	33,000	139,996	3,650	136,346
Total bonds/notes payable	846,443	225,151	213,389	858,205	16,369	841,836
Other liabilities						
Lease/installment purch pay	1,873	113	1,097	889	404	485
Compensated absences pay	41,856	19,812	18,894	42,774	18,996	23,778
Arbitrage rebate tax payable	1,137	322	435	1,024	47	977
Estimated insurance claims	494,300	162,401	123,808	532,893	114,140	418,753
Due to federal government	29,157	1,092	7	30,242	-	30,242
Total other liabilities	568,323	183,740	144,241	607,822	133,587	474,235
	\$1,414,766	\$408,891	\$357,630	\$1,466,027	\$149,956	\$1,316,071
Long-term liabilities of MSU component units					299	1,713
Long-term liabilities of UM component units					483	521
Total discretely presented component units					\$150,738	\$1,318,305
Long-term liabilities						

(1) MSU and UM notes payable beginning balances have been reduced by \$3,012,000 and \$1,427,000, respectively, to reflect that INTERCAP loans payable have been reclassified to advances from primary government.

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2004, the Department of Natural Resources and Conservation used current available resources to make the following pre-payments on special revenue bonds: \$445,000 of Series 2001C Renewable Resource Program Refunding.

Advance Refundings

On September 1, 2003, the Department of Public Health and Human Services (DPHHS) issued \$11,510,000 of Series 2003 Developmental Center Project Refunding bonds to advance refund \$10,665,000 of Series 1994 Developmental Center Project bonds. The net proceeds of \$11,442,750 (including an original issue premium of \$110,416 and after payment of \$361,178 in underwriting fees and other issuance costs) plus an additional \$183,512 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1994 bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$1,129,765 and an economic gain of \$692,129.

On November 1, 2003, the Montana Department of Administration (DofA) issued \$8,725,000 of Series 2003H General Obligation Information Technology Refunding bonds to advance refund \$8,335,000 of Series 2000D Information Technology bonds with stated maturities in the years 2006, 2007, 2008, and 2009. The net proceeds of \$8,943,141 (including a reoffering premium of \$344,229 and after payment of \$126,088 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 2000D Information Technology bonds with stated maturities in the years 2006, 2007, 2008, and 2009, are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$299,451 and an economic gain of \$280,140.

Deferred loss on primary government refundings at June 30, 2004, was \$5,438,000.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the

liability for the defeased bonds are not included in the financial statements. At June 30, 2004, \$38,405,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Current Refundings

Housing Authority – On August 14, 2003, Series 2003B bonds were issued in the amount of \$70,700,000. \$20,000,000 of the proceeds were used for a replacement refunding of a portion of the 1995B-1 bonds on September 1, 2003. The refunding resulted in a reduction of debt service to maturity of \$11,216,801 and an economic gain of \$6,589,802.

Deferred loss on Housing Authority refundings at June 30, 2004, was \$1,500,335.

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2004, \$4,965,000 and \$49,351,963 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) – Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2004, industrial revenue bonds outstanding aggregated \$207.8 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2004, QZAB debt outstanding aggregated \$4.3 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

(2) Beginning Farm Loan Program – The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2004, was as follows: Hershberger Project – issued \$129,412, outstanding \$118,125; Young Project – issued \$223,300, outstanding \$222,338.

(3) Facility Finance Authority (FFA) - Component Unit – The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2004, revenue bonds outstanding aggregated \$631 million, and notes payable outstanding aggregated \$14 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2004, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Due From Other Funds						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic Development Bonds	-	-	-	-	1,699	-
Federal Special Revenue	-	-	-	185	6	-
General Fund	6,868	1	774	-	98	-
Internal Service Funds	43	5	1,178	1,674	388	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	32	108	45	-
Nonmajor Governmental Funds	-	-	519	-	112	537
State Special Revenue	196	-	1,358	6,872	304	13,056
Unemployment Insurance	-	-	-	-	1	-
Total	\$7,107	\$6	\$3,861	\$8,839	\$2,653	\$13,593

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Unemployment Insurance	Total
Due From Other Funds (continued)						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$1,854	\$ -	\$ 1,854
Economic Development Bonds	-	501	24	918	-	3,142
Federal Special Revenue	-	-	-	590	657	1,438
General Fund	9,490	88	-	1,326	-	18,645
Internal Service Funds	130	157	-	2,606	-	6,181
Land Grant Permanent	-	99	-	177	-	276
Nonmajor Enterprise Funds	-	-	-	47	-	232
Nonmajor Governmental Funds	3	4	-	66	-	1,241
State Special Revenue	67	2,304	-	-	-	24,157
Unemployment Insurance	-	-	-	-	-	1
Total	\$9,690	\$3,153	\$24	\$7,584	\$657	\$57,167

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2004, consisted of the following (in thousands):

	Interfund Loans Payable							Total
	Coal Severance Tax Permanent	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	
Interfund Loans Receivable								
Federal Special Revenue	\$ -	\$ -	\$ 50	\$ -	\$ -	\$ 194	\$ -	\$ 244
General Fund	42	24,357	10	120	200	19,607	-	44,336
Internal Service Funds	-	399	-	175	-	-	-	574
Nonmajor Enterprise Funds	-	93	-	-	-	-	-	93
State Special Revenue	-	39,031	2,159	-	430	-	1	41,621
Total	\$42	\$63,880	\$2,219	\$295	\$630	\$19,801	\$1	\$86,868

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2004, consisted of the following (in thousands):

	Advances From Other Funds					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	
Advances To Other Funds						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$ -	\$52,469	\$52,469
Economic Development Bonds	-	3,181	-	204	5,797	9,182
Federal Special Revenue	-	100	-	-	-	100
General Fund	40	-	-	-	60	100
Nonmajor Enterprise Funds	75	180	-	-	-	255
Nonmajor Governmental Funds	-	-	-	-	3,002	3,002
State Special Revenue	778	-	10,805	-	-	11,583
Total	\$893	\$3,461	\$10,805	\$204	\$61,328	\$76,691

Advance payable balances at June 30, 2004, owed to the Economic Development Bonds Fund under the INTERCAP loan program, consisted of the following (in thousands):

Department	Balance
Administration	\$ 204
Environmental Quality	1,137
Historical Society	72
Justice	4,417
Natural Resources and Conservation	171
Transportation	3,181
Total	\$9,182

Advance payable balances at June 30, 2004, owed to the Coal Severance Tax Permanent Fund, consisted of the following (in thousands):

Department	Balance
Justice	\$ 2,225
Natural Resources and Conservation	44,546
Revenue	5,698
Total	\$52,469

D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2004, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	\$ -	\$ -	\$35,134	\$ -	\$ -	\$ 1,474
Federal Special Revenue	-	-	1	-	3,520	1,979
General Fund	-	-	-	398	47	17,082
Internal Service Funds	-	-	-	550	-	369
Land Grant Permanent	-	-	-	-	-	2,042
Nonmajor Enterprise Funds	-	-	26,298	-	-	-
Nonmajor Governmental Funds	-	-	932	500	-	1,488
State Special Revenue	3,405	20	4,036	719	18	15,318
Unemployment Insurance	-	4,297	-	-	-	-
Total	\$3,405	\$4,317	\$66,401	\$2,167	\$3,585	\$39,752

(1)

	State Special Revenue	Total	
Transfers Out (continued)			
Coal Severance Tax Permanent	\$ 7,361	\$ 43,969	
Federal Special Revenue	22,165	27,665	
General Fund	12,097	29,624	
Internal Service Funds	-	919	(2)
Land Grant Permanent	63,776	65,818	
Nonmajor Enterprise Funds	3,710	30,008	
Nonmajor Governmental Funds	16,654	19,574	
State Special Revenue	-	23,516	
Unemployment Insurance	-	4,297	
Total	\$125,763	\$245,390	

(1) Total transfers-in for non-major enterprise funds on the financial statements is reported as \$3,452,000. The difference of \$133,000 between the amount reported above of \$3,585,000 and the amount reported on the financial statements relates to the movement of general long-term liabilities as a result of reclassifying a federal special revenue fund to the HUD Section 8 Enterprise Fund. The general long-term liabilities related to the federal special revenue fund were assigned to the HUD Section 8 Enterprise Fund. No amounts relating to this transfer were reported in the federal special revenue fund on the fund financial statements, as governmental funds do not record general long-term liabilities. However, because enterprise funds report long-term liabilities in the fund financial statements, the HUD Section 8 fund reported transfer activity related to these liabilities.

(2) Total transfers-out for all internal service funds on the financial statements is reported as \$1,339,000. The difference of \$420,000 between the amount reported above of \$919,000 and the amount reported on the financial statements relates to the movement of capital assets as a result of combining the Mail & Messenger Internal Service Fund with the Publications & Graphics Internal Service Fund. The new combined fund is reported as the Print & Mail Services Internal Service Fund. When the capital assets were transferred between these funds, the receiving fund recorded the net book value of the capital assets as a capital contribution and the transferring fund recorded the net book value of the capital assets as a transfer-out.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2004, (in thousands):

Fund Type/Fund	Deficit
<u>Capital projects funds</u>	
Federal/Private Construction Grants	\$ (426)
<u>Enterprise funds</u>	
MUS Workers Compensation	\$ (127)
Subsequent Injury	\$ (527)
<u>Internal service funds</u>	
Administration Insurance	\$(21,213)
Administration Central Services	\$ (48)
OPI Central Services	\$ (44)
Justice Legal Services	\$ (86)
<u>Pension (and other employee benefit) trust funds</u>	
Voluntary Employee Benefit Association	\$ (95)

The net assets deficit in the Administration Insurance and Subsequent Injury funds are due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of these funds.

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Fund Reserved fund balances are for the following purposes:

Fund Type/Purpose	Amount
<u>State Special Revenue funds</u>	
General Government	\$ 15,913
Public Safety/Corrections	174,772
Transportation	40,038
Health/Social Services	6,383
Education/Cultural	3,166
Resource/Recreation/Environment	264,734
Economic Development/Assistance	33,494
Total state special revenue funds	<u>\$538,500</u>
<u>Federal Special Revenue funds</u>	
General Government	\$ 9,768
Public Safety/Corrections	507
Health/Social Services	1,309
Education/Cultural	11,221
Resource/Recreation/Environment	3,863
Economic Development/Assistance	389
Total federal special revenue funds	<u>\$27,057</u>

Coal Severance Tax Permanent Fund – The reserve for trust principal is comprised of the following: Permanent Coal Tax Trust \$658,947 and the Treasure State Endowment Fund \$128,981 (in thousands).

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 57.27% of the Regents' outstanding loan volume, or \$646,792,084, is held by MHESAC. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF), and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2004 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2004 amounted to \$495,739. SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2004, SAF paid OCHE a total of \$146,141.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association \$1 per member per year to maintain its membership as

well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis and consulting services performed by Association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In Swingley, et al. v. Montana Highway Patrol, filed in Lewis and Clark County, Highway Patrol officers brought an administrative wage claim seeking payment for overtime hours. In this case, the court held that there was a waiver of sovereign immunity and, therefore, the Fair Labor Standards Act (FLSA) applies. If the class is defined based on the FLSA statute of limitations, that class includes in excess of 200 officers and seeks overtime compensation for all lunch hours for a period of 3 ½ years, and seeks to have overtime and retirement contributions and benefits recalculated based on the

contention that subsistence pay which was to cover meals, travel, uniform maintenance, and a home telephone for each officer should have been included in the officers' base pay. Depending upon the size of the class as defined by the court, the State's potential exposure is \$9 million to \$20 million. This case is scheduled for mediation on December 10, 2004.

B. Federal Contingencies

USDA Commodities – In fiscal year 2004, the State distributed \$4,780,825 in commodities. The value of the commodities stored in the State's warehouses was \$1,509,580 at June 30, 2004, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2004, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$126,787,072. The BOI's exposure to bond issues of the Economic Development Bonds Fund was \$92,052,796, while exposure to bond issues and surety bonds of the Facility Finance Authority was \$34,734,276.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2004, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	\$ 542	\$153	\$1,027	\$19	\$238
Oil & gas	1,999	217	-	-	-
Corporation tax	5,050	-	-	-	-
Total	\$7,591	\$370	\$1,027	\$19	\$238

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2004. The corporations have appealed the decision. As of June 30, 2004, these include \$4,917,321 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2004. As of June 30, 2004, these include \$8,950,000 of protested General Fund property taxes.

NOTE 17. SUBSEQUENT EVENTS**A. Bond Issues**

On July 8, 2004, the Montana Board of Housing issued \$68 million in Single Family Mortgage Revenue bonds, Series 2004B.

On August 25, 2004, the Department of Natural Resources and Conservation issued \$1.6 million of taxable general obligation Renewable Resource Loan Program bonds, Series 2004B.

On October 26, 2004, Montana State University issued \$23.665 million in Facilities Improvement Revenue bonds, Series 2004H. The bond proceeds will be used to construct and equip a new chemistry/biochemistry building on the Bozeman campus.

On November 10, 2004, the Montana Board of Housing issued \$54.6 million in Single Family Mortgage Revenue bonds, Series 2004C.

B. Federal Financial Assistance

The State receives federal financial assistance for specified purposes, which is subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits become the liability of the State. For fiscal year 2004, the federal government disallowed various National Highway Traffic Safety sub-grant costs. In fiscal year 2005, a payment was made to the federal government in the amount of \$351,154 to reimburse for these disallowed costs.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS**A. Constitutionality of IRIS Funding**

The State's bond counsel and the State's Legislative Audit Division have raised several legal concerns related to legislation passed by the State's Legislature. A discussion of these concerns and the actions planned to address them follows.

Chapter 597, Laws of 2003, authorized funding not to exceed \$17 million for the Department of Revenue to replace the Process Oriented Integrated System computer system. The replacement system is called the Integrated Revenue Information System (IRIS). In accordance with this legislation, the Department of Revenue entered into an interfund advance agreement

with the Montana Board of Investments to borrow money from the Coal Severance Tax Permanent Fund. As of June 30, 2004, the Department of Revenue had drawn \$5,886,467 on the interfund advance and repaid \$188,025, leaving a balance of \$5,698,442.

The legislation discussed above, related to funding for the IRIS project, authorized state debt without the constitutionally mandated two-thirds vote of the members of each house of the Legislature or a majority of the electors voting on the issue. Although the Department of Revenue liability is reported as an interfund advance payable in the State Special Revenue Fund on the State's financial statements, state law defines state debt as the incurring of an obligation for which repayment extends beyond the existing budgeting and reporting period and for which the source of repayment is revenue derived from the State's taxing power. In addition, the legislation indirectly places the Coal Severance Tax Permanent Fund corpus at risk, and inappropriately delegates authority to allocate state tax resources to the Executive branch.

The 2007 Biennium Executive Budget recommendations submitted to the Fifty-Ninth Legislative Assembly by the State's Governor, includes a recommendation to appropriate funds from the General Fund, which would repay the interfund advance to the Coal Severance Tax Permanent Fund.

B. Constitutionality of Retirement System Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. As of June 30, 2004, there were four retirement systems not in compliance: the Teachers Retirement System (TRS), the Public Employee Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

Based on the results of an actuarial valuation completed in 2004, the TRS Board will recommend options to the Legislature that are considered necessary for the Teachers Retirement System to remain actuarially sound. For the remaining three retirement systems not in compliance, the PERS Board has drafted legislation for the 2005 Legislative Session to address the requirement that the plans remain actuarially sound.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 126,732	\$ 126,732	\$ 130,974	\$ 4,242
Taxes:				
Natural resource	38,283	38,283	53,199	14,916
Individual income	558,009	558,009	534,369	(23,640)
Corporate income	64,812	64,812	63,457	(1,355)
Property	168,604	168,604	168,563	(41)
Fuel	-	-	-	-
Other	197,215	197,215	206,573	9,358
Charges for services/fines/forfeits/settlements	36,340	36,340	40,633	4,293
Investment earnings	14,078	14,078	7,118	(6,960)
Sale of documents/merchandise/property	296	296	311	15
Rentals/leases/royalties	68	68	55	(13)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	1,593	1,593	3,315	1,722
Federal	23,927	23,927	29,132	5,205
Federal indirect cost recoveries	99	99	142	43
Other revenues	1,371	1,371	1,276	(95)
Total revenues	1,231,427	1,231,427	1,239,117	7,690
EXPENDITURES				
Current:				
General government	172,880	190,972	168,870	22,102
Public safety/corrections	131,124	131,992	127,888	4,104
Transportation	177	178	170	8
Health/social services	266,466	266,836	251,556	15,280
Education/cultural	661,918	664,352	662,444	1,908
Resource/recreation/environment	20,060	20,209	20,044	165
Economic development/assistance	21,323	21,323	21,062	261
Debt service:				
Principal retirement	2,338	2,464	620	1,844
Interest/fiscal charges	1,157	1,157	1,158	(1)
Capital outlay	1,408	1,481	1,345	136
Total expenditures	1,278,851	1,300,964	1,255,157	45,807
Excess of revenue over (under) expenditures	(47,424)	(69,537)	(16,040)	53,497
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
General capital asset sale proceeds	91	91	79	(12)
Transfers in	68,551	68,551	62,503	(6,048)
Transfers out	(19,682)	(19,115)	(15,793)	3,322
Total other financing sources (uses)	48,960	49,527	46,789	(2,738)
Net change in fund balances (Budgetary basis)	1,536	(20,010)	30,749	50,759
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	374	374
2. Securities lending costs	-	-	(324)	(324)
3. Bond premium	-	-	-	-
4. Inception of lease/installment contract	-	-	648	648
5. Adjust expenditures for encumbrances	-	-	599	599
6. Adjustments for nonbudgeted activity	-	-	59,396	59,396
Net change in fund balances (GAAP basis)	1,536	(20,010)	91,442	111,452
Unreserved fund balances - July 1	43,065	43,065	43,065	-
Prior period adjustments	-	-	(833)	(833)
Decrease (increase):				
Encumbrances reserve	-	-	(578)	(578)
Long-term loans/notes receivable reserve	-	-	1	1
Advances to other funds reserve	-	-	-	-
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(224)	(224)
Unreserved fund balances - June 30	\$ 44,601	\$ 23,055	\$ 132,873	\$ 109,818

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 99,800	\$ 99,800	\$ 108,982	\$ 9,182	\$ -	\$ -	\$ -	\$ -
40,643	40,643	57,386	16,743	-	-	-	-
-	-	234	234	-	-	-	-
-	-	-	-	-	-	-	-
24	24	20	(4)	-	-	-	-
194,854	194,854	197,430	2,576	-	-	-	-
33,251	33,251	45,102	11,851	-	-	-	-
77,790	77,790	73,936	(3,854)	42,809	42,809	72,916	30,107
4,984	4,984	1,915	(3,069)	375	375	247	(128)
11,500	11,500	4,253	(7,247)	1	1	1	-
(731)	(731)	432	1,163	-	-	-	-
6,302	6,302	7,842	1,540	-	-	-	-
24,994	24,994	14,724	(10,270)	65	65	139	74
14,659	14,659	1,578	(13,081)	1,606,239	1,606,239	1,353,461	(252,778)
100	100	34,280	34,180	30,248	30,248	3,330	(26,918)
17,302	17,302	1,888	(15,414)	1,956	1,956	43	(1,913)
525,472	525,472	550,002	24,530	1,681,693	1,681,693	1,430,137	(251,556)
77,936	79,018	71,367	7,651	6,686	15,119	6,545	8,574
40,607	42,117	36,521	5,596	39,824	71,285	38,839	32,446
229,617	283,431	238,875	44,556	329,545	302,804	255,488	47,316
66,595	67,661	52,987	14,674	842,179	853,934	811,549	42,385
67,859	68,427	64,715	3,712	181,458	189,820	170,766	19,054
146,579	149,623	90,667	58,956	107,785	158,599	125,143	33,456
71,127	75,163	49,058	26,105	79,156	83,550	68,946	14,604
8,935	8,410	476	7,934	166	316	238	78
702	702	620	82	20	20	21	(1)
56,834	60,743	26,281	34,462	26,858	56,511	12,750	43,761
766,791	835,295	631,567	203,728	1,613,677	1,731,958	1,490,285	241,673
(241,319)	(309,823)	(81,565)	228,258	68,016	(50,265)	(60,148)	(9,883)
670	670	-	(670)	-	-	-	-
32,898	32,898	2,665	(30,233)	-	-	-	-
11,620	11,620	11,510	(110)	-	-	-	-
218	218	217	(1)	-	-	-	-
138,221	138,221	118,536	(19,685)	37,775	37,775	8,461	(29,314)
(19,162)	(16,782)	(2,784)	13,998	(39,645)	(42,171)	(9,561)	32,610
164,465	166,845	130,144	(36,701)	(1,870)	(4,396)	(1,100)	3,296
(76,854)	(142,978)	48,579	191,557	66,146	(54,661)	(61,248)	(6,587)
-	-	378	378	-	-	-	-
-	-	(328)	(328)	-	-	-	-
-	-	111	111	-	-	-	-
-	-	127	127	-	-	522	522
-	-	(8,513)	(8,513)	-	-	1,718	1,718
-	-	(29,753)	(29,753)	-	-	40,914	40,914
(76,854)	(142,978)	10,601	153,579	66,146	(54,661)	(18,094)	36,567
476,229	476,229	476,229	-	25,450	25,450	25,450	-
-	-	(5,622)	(5,622)	-	-	(2,010)	(2,010)
-	-	10,320	10,320	-	-	(2,439)	(2,439)
-	-	(25,614)	(25,614)	-	-	448	448
-	-	(1,011)	(1,011)	-	-	200	200
-	-	(538,500)	(538,500)	-	-	(13,826)	(13,826)
-	-	(23)	(23)	-	-	-	-
\$ 399,375	\$ 333,251	\$ (73,620)	\$ (406,871)	\$ 91,596	\$ (29,211)	\$ (10,271)	\$ 18,940

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and the proposed budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the

Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2004, reverted governmental fund appropriations were as follows: General Fund - \$99.4 million, State Special Revenue Fund - \$107.3 million, and Federal Special Revenue Fund - \$174.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

JUNE 30, 2004

(expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	\$ 18,220	\$ 12,361	\$ 2,402	\$ 32,983
Receivables (net)	2,885	892	1,482	5,259
Due from other funds	-	1,241	-	1,241
Due from component units	-	57	-	57
Equity in pooled investments	-	-	179,139	179,139
Long-term loans/notes receivable	33,034	-	-	33,034
Advances to other funds	3,002	-	-	3,002
Investments	4,159	-	9,186	13,345
Securities lending collateral	-	-	27,332	27,332
Total assets	\$ 61,300	\$ 14,551	\$ 219,541	\$ 295,392
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	4	2,827	2	2,833
Interfund loans payable	430	200	-	630
Due to other funds	501	475	2,177	3,153
Due to component units	-	49	-	49
Advances from other funds	10,805	-	-	10,805
Securities lending liability	-	-	27,332	27,332
Total liabilities	11,740	3,551	29,511	44,802
Fund balances:				
Reserved for:				
Encumbrances	-	339	-	339
Long-term loans/notes receivable	33,034	-	-	33,034
Advances to other funds	3,002	-	-	3,002
Debt service	6,521	-	-	6,521
Trust principal	-	-	190,030	190,030
Unreserved, designated	9,253	-	-	9,253
Unreserved, undesignated	(2,250)	10,661	-	8,411
Total fund balances	49,560	11,000	190,030	250,590
Total liabilities and fund balances	\$ 61,300	\$ 14,551	\$ 219,541	\$ 295,392

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Licenses/permits	\$ -	\$ -	\$ 371	\$ 371
Taxes:				
Natural resource	301	3,797	600	4,698
Fuel	-	-	14	14
Other	-	1,767	-	1,767
Charges for services/fines/forfeits/settlements	1,137	253	10,668	12,058
Investment earnings	7,018	22	2,749	9,789
Securities lending income	-	-	227	227
Sale of documents/merchandise/property	2,082	-	15	2,097
Rentals/leases/royalties	-	-	117	117
Grants/contracts/donations	-	-	109	109
Other revenues	-	15	-	15
Total revenues	10,538	5,854	14,870	31,262
EXPENDITURES				
Current:				
General government	-	4,952	-	4,952
Public safety/corrections	-	2,443	-	2,443
Education/cultural	-	-	2	2
Resource/recreation/environment	457	-	-	457
Debt service:				
Principal retirement	23,878	-	-	23,878
Interest/fiscal charges	12,930	-	-	12,930
Capital outlay	-	16,550	14	16,564
Securities lending	-	-	201	201
Total expenditures	37,265	23,945	217	61,427
Excess of revenue over (under) expenditures	(26,727)	(18,091)	14,653	(30,165)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	3,125	-	3,125
Proceeds of refunding bonds	8,725	-	-	8,725
Bond premium	367	-	-	367
Payment to refunded bond escrow agent	(8,943)	-	-	(8,943)
Transfers in	26,984	12,768	-	39,752
Transfers out	(3,636)	(3,993)	(11,945)	(19,574)
Total other financing sources (uses)	23,497	11,900	(11,945)	23,452
Net change in fund balances	(3,230)	(6,191)	2,708	(6,713)
Fund balances - July 1 - as previously reported	52,848	17,134	187,322	257,304
Prior period adjustments	(58)	57	-	(1)
Fund balances - July 1 - as restated	52,790	17,191	187,322	257,303
Fund balances - June 30	\$ 49,560	\$ 11,000	\$ 190,030	\$ 250,590

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NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

Coal Tax Bonds – Monies in this fund are pledged for the payment of principal and interest on all State of Montana coal severance tax bonds.

Long-Range Building Program – This fund accounts for the payment of all long-range building program bonds and interest.

Water Development – This fund accounts for general obligation bonds and bonds payable from pledged coal severance taxes sold to make loans/grants for water and wastewater development projects and activities, as prioritized by the Legislature.

Highway Revenue Bonds – This fund accounts for gasoline taxes pledged for payment of principal and interest on bonds issued for the purpose of constructing highways in Montana.

Health Care Debt Service – This fund accounts for funds from services provided to patients at the Montana Developmental Center and Montana State Hospital to pay off bonds issued by the Montana Facility Finance Authority.

Information Technology (IT) Bonds – This fund accounts for the accumulation and payment of resources for information technology bond debt service requirements.

Renewable Resource – This fund accounts for coal severance taxes pledged to retire bonds that were sold to provide funds to finance renewable resource projects.

Water Conservation Bonds – This fund accounts for water conservation bonds issued for four projects: Sidney, Little Dry, South Side Canal, and Petrolia.

Energy Bonds – This fund accounts for general obligation bonds issued for State Building Energy Conservation Projects.

Hard Rock Mining Reclamation – This fund accounts for bonds issued to fund legally required reclamation, operation and maintenance at hard rock mines that would otherwise not occur when it has been determined that there is no likelihood of receiving additional funds from the mine operator and the available surety bond is insufficient.

COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 JUNE 30, 2004
 (expressed in thousands)

	COAL TAX BONDS	LONG-RANGE BUILDING PROGRAM	WATER DEVELOPMENT
ASSETS			
Cash/cash equivalents	\$ 9,129	\$ 1,592	\$ 3,877
Receivables (net)	396	-	2,470
Long-term loans/notes receivable	17,993	-	15,021
Advances to other funds	3,002	-	-
Investments	-	-	3,125
Total assets	<u>\$ 30,520</u>	<u>\$ 1,592</u>	<u>\$ 24,493</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	3	-
Interfund loans payable	-	-	410
Due to other funds	-	-	501
Advances from other funds	-	-	10,805
Total liabilities	<u>-</u>	<u>3</u>	<u>11,716</u>
Fund balances:			
Reserved for:			
Long-term loans/notes receivable	17,993	-	15,021
Advances to other funds	3,002	-	-
Debt service	6,521	-	-
Unreserved, designated	3,004	1,589	-
Unreserved, undesignated	-	-	(2,244)
Total fund balances	<u>30,520</u>	<u>1,589</u>	<u>12,777</u>
Total liabilities and fund balances	<u>\$ 30,520</u>	<u>\$ 1,592</u>	<u>\$ 24,493</u>

HEALTH CARE DEBT SERVICE	INFORMATION TECHNOLOGY BONDS	RENEWABLE RESOURCE	WATER CONSERVATION BONDS	ENERGY BONDS	TOTAL
\$ 3,046	\$ 107	\$ 275	\$ -	\$ 194	\$ 18,220
-	-	19	-	-	2,885
-	-	-	20	-	33,034
-	-	-	-	-	3,002
1,034	-	-	-	-	4,159
\$ 4,080	\$ 107	\$ 294	\$ 20	\$ 194	\$ 61,300
-	-	-	-	1	4
-	-	14	6	-	430
-	-	-	-	-	501
-	-	-	-	-	10,805
-	-	14	6	1	11,740
-	-	-	20	-	33,034
-	-	-	-	-	3,002
-	-	-	-	-	6,521
4,080	107	280	-	193	9,253
-	-	-	(6)	-	(2,250)
4,080	107	280	14	193	49,560
\$ 4,080	\$ 107	\$ 294	\$ 20	\$ 194	\$ 61,300

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	COAL TAX BONDS	LONG-RANGE BUILDING PROGRAM	WATER DEVELOPMENT	HIGHWAY REVENUE BONDS
REVENUES				
Taxes:				
Natural resource	\$ -	\$ -	\$ 301	\$ -
Charges for services/fines/forfeits/settlements	-	-	6	-
Investment earnings	941	91	5,684	-
Sale of documents/merchandise/property	2,082	-	-	-
Total revenues	3,023	91	5,991	-
EXPENDITURES				
Current:				
Resource/recreation/environment	-	-	449	-
Debt service:				
Principal retirement	4,535	6,815	1,250	3,705
Interest/fiscal charges	1,919	6,038	1,598	94
Total expenditures	6,454	12,853	3,297	3,799
Excess of revenue over (under) expenditures	(3,431)	(12,762)	2,694	(3,799)
OTHER FINANCING SOURCES (USES)				
Proceeds of refunding bonds	-	-	-	-
Bond premium	-	23	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	3,748	12,853	1,244	-
Transfers out	(319)	-	(3,235)	-
Total other financing sources (uses)	3,429	12,876	(1,991)	-
Net change in fund balances	(2)	114	703	(3,799)
Fund balances - July 1 - as previously reported	30,522	1,475	12,074	3,799
Prior period adjustments	-	-	-	-
Fund balances - July 1 - as restated	30,522	1,475	12,074	3,799
Fund balances - June 30	\$ 30,520	\$ 1,589	\$ 12,777	\$ -

HEALTH CARE DEBT SERVICE	INFORMATION TECHNOLOGY BONDS	RENEWABLE RESOURCE	WATER CONSERVATION BONDS	ENERGY BONDS	HARD ROCK MINING RECLAMATION	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	301
-	100	-	-	1,031	-	1,137
240	7	51	-	4	-	7,018
-	-	-	-	-	-	2,082
240	107	51	-	1,035	-	10,538
-	-	-	1	6	1	457
1,476	5,245	-	2	785	65	23,878
1,519	1,528	-	3	129	102	12,930
2,995	6,773	-	6	920	168	37,265
(2,755)	(6,666)	51	(6)	115	(168)	(26,727)
-	8,725	-	-	-	-	8,725
-	344	-	-	-	-	367
-	(8,943)	-	-	-	-	(8,943)
2,632	6,339	-	-	-	168	26,984
-	-	-	-	(82)	-	(3,636)
2,632	6,465	-	-	(82)	168	23,497
(123)	(201)	51	(6)	33	-	(3,230)
4,203	308	229	20	218	-	52,848
-	-	-	-	(58)	-	(58)
4,203	308	229	20	160	-	52,790
\$ 4,080	\$ 107	\$ 280	\$ 14	\$ 193	\$ -	\$ 49,560

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NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

Long-Range Building Program – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

Information Technology (IT) Projects – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

Federal/Private Construction Grants – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

Capital Land Grant – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2004
 (expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
ASSETS					
Cash/cash equivalents	\$ 7,638	\$ 3,589	\$ 33	\$ 1,101	\$ 12,361
Receivables (net)	892	-	-	-	892
Due from other funds	700	-	4	537	1,241
Due from component units	57	-	-	-	57
Total assets	<u>\$ 9,287</u>	<u>\$ 3,589</u>	<u>\$ 37</u>	<u>\$ 1,638</u>	<u>\$ 14,551</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	1,987	377	463	-	2,827
Interfund loans payable	-	-	-	200	200
Due to other funds	83	153	-	239	475
Due to component units	49	-	-	-	49
Total liabilities	<u>2,119</u>	<u>530</u>	<u>463</u>	<u>439</u>	<u>3,551</u>
Fund balances:					
Reserved for:					
Encumbrances	339	-	-	-	339
Unreserved	6,829	3,059	(426)	1,199	10,661
Total fund balances	<u>7,168</u>	<u>3,059</u>	<u>(426)</u>	<u>1,199</u>	<u>11,000</u>
Total liabilities and fund balances	<u>\$ 9,287</u>	<u>\$ 3,589</u>	<u>\$ 37</u>	<u>\$ 1,638</u>	<u>\$ 14,551</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR CAPITAL PROJECTS FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural Resource	\$ 3,797	\$ -	\$ -	\$ -	\$ 3,797
Other	1,767	-	-	-	1,767
Charges for services/fines/forfeits/settlements	253	-	-	-	253
Investment earnings	22	-	-	-	22
Other revenues	15	-	-	-	15
Total revenues	5,854	-	-	-	5,854
EXPENDITURES					
Current:					
General government	12	4,940	-	-	4,952
Public safety/corrections	-	2,443	-	-	2,443
Capital outlay	10,706	4,947	862	35	16,550
Total expenditures	10,718	12,330	862	35	23,945
Excess of revenue over (under) expenditures	(4,864)	(12,330)	(862)	(35)	(18,091)
OTHER FINANCING SOURCES (USES)					
Bond proceeds	300	2,715	110	-	3,125
Transfers in	1,678	8,722	326	2,042	12,768
Transfers out	(3,259)	-	-	(734)	(3,993)
Total other financing sources (uses)	(1,281)	11,437	436	1,308	11,900
Net change in fund balances	(6,145)	(893)	(426)	1,273	(6,191)
Fund balances - July 1 - as previously reported	13,256	3,952	-	(74)	17,134
Prior period adjustments	57	-	-	-	57
Fund balances - July 1 - as restated	13,313	3,952	-	(74)	17,191
Fund balances - June 30	\$ 7,168	\$ 3,059	\$ (426)	\$ 1,199	\$ 11,000

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

Resource Indemnity – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches \$100 million. Interest earnings are expended from a special revenue fund. This fund is administered by the Department of Revenue.

Parks Trust and Cultural Trust – A portion of coal severance taxes are credited to these funds by the Department of Revenue. Income from the trusts is used for the acquisition and maintenance of state parks and historical sites by the Department of Fish, Wildlife and Parks. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

Real Property Trust – Money received by the Department of Fish, Wildlife and Parks from the sale of real property; the exploration and development of oil, gas, and mineral deposits; and leasing department real property is deposited in this fund. Interest is recorded in a special revenue fund and used for developing and maintaining real property of the department.

Noxious Weed Management – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds.

Historical Society Trusts – Four funds (Jim Bradley Memorial, Thomas Teakle, Merritt-Wheeler, and Historical Society Acquisitions) account for memorials, bequests, and various other contributions to the Montana Historical Society. Investment income is either expended from a state special revenue fund, a private-purpose trust fund or added to the principal.

Endowment for Children – This fund provides services and activities related to a broad range of child abuse and neglect prevention activities operated by non-profit or public community educational and service organizations.

Tobacco Settlement Interest – This fund holds interest earned by investing the Tobacco Settlement Principal.

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS**

JUNE 30, 2004

(expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
ASSETS					
Cash/cash equivalents	\$ 646	\$ 328	\$ 156	\$ 617	\$ 465
Receivables (net)	716	200	76	112	58
Equity in pooled investments	104,764	16,234	4,697	5,835	-
Investments	-	-	-	4,590	4,596
Securities lending collateral	14,457	2,240	648	2,153	1,368
Total assets	\$ 120,583	\$ 19,002	\$ 5,577	\$ 13,307	\$ 6,487
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	-	-	-	1	1
Due to other funds	1,359	100	117	61	253
Securities lending liability	14,457	2,240	648	2,153	1,368
Total liabilities	15,816	2,340	765	2,215	1,622
Fund balances:					
Reserved for:					
Trust principal	104,767	16,662	4,812	11,092	4,865
Total fund balances	104,767	16,662	4,812	11,092	4,865
Total liabilities and fund balances	\$ 120,583	\$ 19,002	\$ 5,577	\$ 13,307	\$ 6,487

HISTORICAL SOCIETY TRUSTS	ENDOWMENT FOR CHILDREN	TOBACCO SETTLEMENT INTEREST	TOTAL
\$ 56	\$ 1	\$ 133	\$ 2,402
2	-	318	1,482
1,013	-	46,596	179,139
-	-	-	9,186
36	-	6,430	27,332
\$ 1,107	\$ 1	\$ 53,477	\$ 219,541

-	-	-	2
-	-	287	2,177
36	-	6,430	27,332
36	-	6,717	29,511

1,071	1	46,760	190,030
1,071	1	46,760	190,030
\$ 1,107	\$ 1	\$ 53,477	\$ 219,541

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expresses in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
REVENUES					
Licenses/permits	\$ -	\$ -	\$ -	\$ 371	\$ -
Taxes:					
Natural resource	2	401	197	-	-
Fuel	-	-	-	-	14
Charges for services/fines/forfeits/settlements	-	-	-	-	-
Investment earnings	1,569	242	72	140	29
Securities lending income	128	20	6	16	11
Sale of documents/merchandise/property	-	-	-	-	-
Rentals/leases/royalties	-	-	-	117	-
Grants/contracts/donations	-	-	-	-	-
Total revenues	1,699	663	275	644	54
EXPENDITURES					
Current:					
Education/cultural	-	-	-	-	-
Capital outlay	-	-	-	-	-
Securities lending	113	18	5	14	10
Total expenditures	113	18	5	14	10
Excess of revenue over (under) expenditures	1,586	645	270	630	44
OTHER FINANCING SOURCES (USES)					
Transfers out	(7,380)	(1,030)	(326)	(552)	(253)
Total other financing sources (uses)	(7,380)	(1,030)	(326)	(552)	(253)
Net change in fund balances	(5,794)	(385)	(56)	78	(209)
Fund balances - July 1 - as previously reported	110,561	17,047	4,868	11,014	5,074
Fund balances - June 30	\$ 104,767	\$ 16,662	\$ 4,812	\$ 11,092	\$ 4,865

HISTORICAL SOCIETY TRUSTS	ENDOWMENT FOR CHILDREN	TOBACCO SETTLEMENT INTEREST	TOTAL
\$ -	\$ -	\$ -	\$ 371
-	-	-	600
-	-	-	14
-	-	10,668	10,668
114	-	583	2,749
-	-	46	227
15	-	-	15
-	-	-	117
109	-	-	109
238	-	11,297	14,870
2	-	-	2
14	-	-	14
-	-	41	201
16	-	41	217
222	-	11,256	14,653
(1)	-	(2,403)	(11,945)
(1)	-	(2,403)	(11,945)
221	-	8,853	2,708
850	1	37,907	187,322
\$ 1,071	\$ 1	\$ 46,760	\$ 190,030

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

Liquor Warehouse – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

Hail Insurance – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

State Lottery – This fund accounts for the operations of Montana's lottery.

Prison Industries – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

MUS Group Insurance – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

MUS Workers Compensation – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

Secretary of State Business Services – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

Surplus Property – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

Local Government Audits – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

Flexible Spending Administration – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

HUD Section 8 Housing – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds – This category includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2004

(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	\$ 1,729	\$ 7,481	\$ 298	\$ 2,021
Receivables (net)	12,353	1,805	1,149	346
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	1	153
Due from component units	-	-	1	16
Inventories	75	-	1,034	5,103
Short-term investments	-	-	-	-
Securities lending collateral	-	-	-	-
Other current assets	20	-	15	-
Total current assets	14,177	9,286	2,498	7,639
Noncurrent assets:				
Advances to other funds	75	-	-	180
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Deferred charges	-	-	-	-
Other long-term assets	-	-	1,325	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	240
Buildings/improvements	2,033	-	-	3,460
Equipment	337	-	5,564	3,459
Infrastructure	-	-	-	884
Construction in progress	-	-	-	255
Intangible assets	-	-	288	-
Less accumulated depreciation	(1,291)	-	(3,930)	(4,274)
Total capital assets	1,079	-	1,922	4,714
Total noncurrent assets	1,154	-	3,247	5,186
Total assets	15,331	9,286	5,745	12,825

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ 16,149	\$ 1,032	\$ 179	\$ 2,379	\$ 282	\$ 48
726	16	18	11	8	24
-	-	-	-	-	-
-	-	-	-	-	-
-	2	-	14	1	20
14	225	9	1	-	2
-	-	-	60	456	81
-	731	-	-	-	-
-	-	521	-	-	-
-	2	-	121	-	1
16,889	2,008	727	2,586	747	176
-	-	-	-	-	-
-	1,111	1,630	-	-	-
-	-	-	-	-	3
-	37	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	118
-	-	-	206	11	142
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	623	-	-
-	-	-	(126)	(11)	(124)
-	-	-	703	-	136
-	1,148	1,630	703	-	139
16,889	3,156	2,357	3,289	747	315

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued

NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2004

(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS			
Current assets:			
Cash/cash equivalents	\$ 521	\$ 250	\$ 231
Receivables (net)	-	-	288
Interfund loans receivable	93	-	-
Due from other governments	-	-	-
Due from other funds	-	-	5
Due from component units	-	-	-
Inventories	-	-	-
Short-term investments	-	-	-
Securities lending collateral	-	-	-
Other current assets	-	-	81
Total current assets	614	250	605
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	-
Long-term notes/loans receivable	-	-	-
Deferred charges	-	-	-
Other long-term assets	-	-	-
Capital assets:			
Land	110	-	-
Land improvements	1,147	-	-
Buildings/improvements	487	-	-
Equipment	71	-	-
Infrastructure	-	-	-
Construction in progress	-	-	-
Intangible assets	-	-	-
Less accumulated depreciation	(1,517)	-	-
Total capital assets	298	-	-
Total noncurrent assets	298	-	-
Total assets	912	250	605

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$ 2,215	\$ 168	\$ 34,983
111	-	16,855
-	-	93
222	-	222
23	13	232
-	-	268
-	67	6,876
-	-	731
-	-	521
16	-	256
2,587	248	61,037
-	-	255
-	-	2,741
651	-	654
-	-	37
-	-	1,617
-	-	800
-	-	1,387
-	-	6,098
75	-	9,865
-	-	884
-	-	255
30	-	941
(36)	-	(11,309)
69	-	8,921
720	-	14,225
3,307	248	75,262

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued

NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2004

(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 3,904	\$ 10	\$ 474	\$ 217
Lottery prizes payable	-	-	1,529	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	7,264	93	2,199	28
Due to component units	-	-	-	-
Deferred revenue	1,085	1,936	64	27
Bonds/notes payable (net)	-	-	-	-
Amounts held in custody for others	20	-	6	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	95	-	-
Compensated absences payable	111	19	112	102
Total current liabilities	12,384	2,153	4,384	374
Long-term liabilities:				
Lottery prizes payable	-	-	1,283	-
Bonds/notes payable (net)	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	56	1	78	146
Total long-term liabilities	56	1	1,361	146
Total liabilities	12,440	2,154	5,745	520
NET ASSETS				
Invested in capital assets, net of related debt	1,079	-	1,922	4,714
Restricted for:				
Other purposes	-	7,132	-	-
Unrestricted	1,812	-	(1,922)	7,591
Total net assets	\$ 2,891	\$ 7,132	\$ -	\$ 12,305

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ 1,157	\$ 6	\$ -	\$ 130	\$ 33	\$ 11
-	-	-	-	-	-
-	-	-	-	-	175
-	-	-	-	-	-
1	-	-	39	24	8
-	-	-	1	-	-
-	-	-	235	126	-
-	395	-	-	-	-
-	-	-	157	-	-
-	-	521	-	-	-
4,663	350	233	-	-	-
11	-	-	130	32	20
5,832	751	754	692	215	214
-	-	-	-	-	-
-	1,260	-	-	-	-
-	1,272	2,130	-	-	-
50	-	-	82	39	11
50	2,532	2,130	82	39	11
5,882	3,283	2,884	774	254	225
-	-	-	703	-	136
11,007	-	-	-	-	-
-	(127)	(527)	1,812	493	(46)
\$ 11,007	\$ (127)	\$ (527)	\$ 2,515	\$ 493	\$ 90

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued

NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2004

(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 80	\$ 9	\$ 27
Lottery prizes payable	-	-	-
Interfund loans payable	-	-	120
Due to other governments	-	-	-
Due to other funds	-	1	-
Due to component units	-	-	-
Deferred revenue	-	-	-
Bonds/notes payable (net)	-	-	-
Amounts held in custody for others	1	-	-
Securities lending liability	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	3	15	-
Total current liabilities	84	25	147
Long-term liabilities:			
Lottery prizes payable	-	-	-
Bonds/notes payable (net)	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	-	36	-
Total long-term liabilities	-	36	-
Total liabilities	84	61	147
NET ASSETS			
Invested in capital assets, net of related debt	298	-	-
Restricted for:			
Other purposes	530	-	-
Unrestricted	-	189	458
Total net assets	\$ 828	\$ 189	\$ 458

HUD SECTION 8 HOUSING		OTHER ENTERPRISE FUNDS		TOTAL
\$	53	\$	31	\$ 6,142
	-		-	1,529
	-		-	295
	292		-	292
	29		4	9,690
	-		-	1
	1		5	3,479
	-		-	395
	-		-	184
	-		-	521
	-		-	5,341
	90		9	654
	465		49	28,523
	-		-	1,283
	-		-	1,260
	-		-	3,402
	48		2	549
	48		2	6,494
	513		51	35,017
	69		-	8,921
	-		9	18,678
	2,725		188	12,646
\$	2,794	\$	197	\$ 40,245

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	\$ 49,411	\$ -	\$ 36,740	\$ 5,135
Investment earnings	-	62	44	-
Securities lending income	-	-	-	-
Contributions/premiums	-	3,742	-	-
Grants/contracts/donations	-	-	-	-
Taxes	14,620	-	-	-
Other operating revenues	113	6	1	5
Total operating revenues	64,144	3,810	36,785	5,140
Operating expenses:				
Personal services	1,992	226	1,401	1,849
Contractual services	303	132	5,519	162
Supplies/materials	40,066	46	897	1,524
Benefits/claims	-	1,163	-	-
Depreciation	102	-	900	318
Amortization	-	-	164	-
Utilities/rent	120	6	109	170
Communications	125	5	724	15
Travel	15	15	14	16
Repair/maintenance	53	-	18	219
Lottery prize payments	-	-	18,680	-
Interest expense	-	-	25	-
Securities lending expense	-	-	-	-
Dividend expense	-	353	-	-
Other operating expenses	20	3	212	349
Total operating expenses	42,796	1,949	28,663	4,622
Operating income (loss)	21,348	1,861	8,122	518
Nonoperating revenues (expenses):				
Gain (loss) on sale of capital assets	(31)	-	(6)	-
Increase (decrease) value of livestock	-	-	-	378
Total nonoperating revenues (expenses)	(31)	-	(6)	378
Income (loss) before contributions and transfers	21,317	1,861	8,116	896
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(21,850)	(14)	(8,116)	-
Change in net assets	(533)	1,847	-	896
Total net assets - July 1 - as previously reported	3,424	5,285	-	11,411
Prior period adjustments	-	-	-	(2)
Total net assets - July 1 - as restated	3,424	5,285	-	11,409
Total net assets - June 30	\$ 2,891	\$ 7,132	\$ -	\$ 12,305

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ -	\$ -	\$ 72	\$ 3,491	\$ 788	\$ 302
137	1	11	14	-	-
-	-	5	-	-	-
42,252	2,424	-	-	-	-
-	-	-	-	15	-
-	-	-	-	-	-
407	-	-	68	12	-
42,796	2,425	88	3,573	815	302
157	-	-	1,886	414	191
2,586	310	-	610	86	24
8	-	-	60	341	325
36,569	2,174	173	-	-	-
-	-	-	17	1	20
-	-	-	113	-	-
4	-	-	145	4	21
2	-	-	131	46	9
2	-	-	29	8	2
-	-	-	17	10	6
-	-	-	-	-	-
-	63	-	-	-	-
-	-	4	-	-	-
-	-	-	-	-	-
362	5	-	47	38	10
39,690	2,552	177	3,055	948	608
3,106	(127)	(89)	518	(133)	(306)
-	-	-	-	(2)	(5)
-	-	-	-	-	-
-	-	-	-	(2)	(5)
3,106	(127)	(89)	518	(135)	(311)
-	-	-	-	-	177
-	-	-	-	47	-
-	-	(28)	-	-	-
3,106	(127)	(117)	518	(88)	(134)
7,901	-	(410)	1,997	580	224
-	-	-	-	1	-
7,901	-	(410)	1,997	581	224
\$ 11,007	\$ (127)	\$ (527)	\$ 2,515	\$ 493	\$ 90

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued

NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:			
Charges for services	\$ 37	\$ 270	\$ 96
Investment earnings	-	-	1
Securities lending income	-	-	-
Contributions/premiums	-	-	7,767
Grants/contracts/donations	-	-	-
Taxes	-	-	-
Other operating revenues	81	-	-
Total operating revenues	118	270	7,864
Operating expenses:			
Personal services	43	200	-
Contractual services	13	40	87
Supplies/materials	3	5	-
Benefits/claims	-	-	7,670
Depreciation	27	-	-
Amortization	-	-	-
Utilities/rent	20	27	-
Communications	2	4	-
Travel	1	-	-
Repair/maintenance	10	-	-
Lottery prize payments	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Dividend expense	-	-	-
Other operating expenses	2	20	98
Total operating expenses	121	296	7,855
Operating income (loss)	(3)	(26)	9
Nonoperating revenues (expenses):			
Gain (loss) sale of capital assets	-	-	-
Increase (decrease) value of livestock	-	-	-
Total nonoperating revenues (expenses)	-	-	-
Income (loss) before contributions and transfers	(3)	(26)	9
Capital contributions	-	-	-
Transfers in	18	-	-
Transfers out	-	-	-
Change in net assets	15	(26)	9
Total net assets - July 1 - as previously reported	814	215	449
Prior period adjustments	(1)	-	-
Total net assets - July 1 - as restated	813	215	449
Total net assets - June 30	\$ 828	\$ 189	\$ 458

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$ -	\$ 299	\$ 96,641
44	-	314
-	-	5
-	-	56,185
34,374	-	34,389
1	-	14,621
-	57	750
34,419	356	202,905

841	117	9,317
164	94	10,130
41	1	43,317
33,693	-	81,442
12	-	1,397
9	-	286
86	9	721
37	3	1,103
36	14	152
8	5	346
-	-	18,680
-	-	88
-	-	4
-	-	353
136	22	1,324
35,063	265	168,660
(644)	91	34,245

-	-	(44)
-	-	378
-	-	334
(644)	91	34,579
41	-	218
3,387	-	3,452
-	-	(30,008)
2,784	91	8,241
-	106	31,996
10	-	8
10	106	32,004
\$ 2,794	\$ 197	\$ 40,245

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004
 (expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	\$ 48,779	\$ 3,690	\$ 36,736	\$ 4,992
Payments to suppliers for goods and services	(40,180)	(172)	(7,876)	(2,598)
Payments to employees	(1,971)	(228)	(1,391)	(1,898)
Grant receipts	-	-	-	-
Cash payments for claims	-	(1,367)	-	-
Cash payments for prizes	-	-	(18,505)	-
Other operating revenues	113	6	-	-
Other operating payments	-	(353)	-	-
Net cash provided by (used for) operating activities	6,741	1,576	8,964	496
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	14,622	-	-	-
Transfers to other funds	(21,173)	(14)	(7,738)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	76
Payments of interfund loans/advances	-	-	-	-
Payment of external loan	-	-	-	-
Collection of principal and interest on loans	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	-
Proceeds from issuance of bonds and notes	-	-	-	-
Payment of bond issuance costs	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(6,551)	(14)	(7,738)	76
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(95)	-	(39)	(239)
Proceeds from sale of capital assets	-	-	1	-
Principal and interest payments on bonds and notes	-	-	(1,145)	-
Net cash used for capital and related financing activities	(95)	-	(1,183)	(239)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	62	10	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	62	10	-
Net increase (decrease) in cash and cash equivalents	95	1,624	53	333
Cash and cash equivalents, July 1	1,634	5,857	245	1,688
Cash and cash equivalents, June 30	\$ 1,729	\$ 7,481	\$ 298	\$ 2,021

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
43,074 \$	2,198 \$	67 \$	3,652 \$	857 \$	490
(2,825)	(317)	-	(1,032)	(506)	(267)
(154)	-	-	(1,902)	(401)	(191)
-	-	-	-	15	-
(36,526)	(552)	(173)	-	-	-
-	-	-	-	-	-
358	-	-	-	-	-
-	-	-	-	-	-
3,927	1,329	(106)	718	(35)	32
-	-	-	-	-	-
-	-	(35)	-	-	-
-	-	-	-	47	-
105	-	-	-	-	175
-	-	-	-	-	(250)
-	-	-	-	-	-
-	-	-	-	-	-
-	(443)	-	-	-	-
-	2,050	-	-	-	-
-	(46)	-	-	-	-
105	1,561	(35)	-	47	(75)
-	-	-	(25)	-	(15)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	(25)	-	(15)
-	(1,873)	(647)	-	-	-
-	-	427	-	-	-
-	-	5	-	-	-
137	15	81	14	-	-
-	-	(4)	-	-	-
137	(1,858)	(138)	14	-	-
4,169	1,032	(279)	707	12	(58)
11,980	-	458	1,672	270	106
16,149 \$	1,032 \$	179 \$	2,379 \$	282	48

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales and services	\$ 117	\$ 271	\$ 7,841
Payments to suppliers for goods and services	(71)	(122)	(186)
Payments to employees	(41)	(194)	-
Grant receipts	-	-	-
Cash payments for claims	-	-	(7,673)
Cash payments for prizes	-	-	-
Other operating revenues	-	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	5	(45)	(18)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	18	-	-
Proceeds from interfund loans/advances	-	-	120
Payments of interfund loans/advances	-	-	-
Payment of external loan	-	-	-
Collection of principal and interest on loans	-	-	-
Payment of principal and interest on bonds and notes	-	-	-
Proceeds from issuance of bonds and notes	-	-	-
Payment of bond issuance costs	-	-	-
Net cash provided by (used for) noncapital financing activities	18	-	120
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	-	-
Proceeds from sale of capital assets	-	-	-
Principal and interest payments on bonds and notes	-	-	-
Net cash used for capital and related financing activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	-
Proceeds from sales or maturities of investments	-	-	-
Proceeds from securities lending transactions	-	-	-
Interest and dividends on investments	-	-	1
Payment of securities lending costs	-	-	-
Net cash provided by (used for) investing activities	-	-	1
Net increase (decrease) in cash and cash equivalents	23	(45)	103
Cash and cash equivalents, July 1	498	295	128
Cash and cash equivalents, June 30	\$ 521	\$ 250	\$ 231

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$	-	\$ 294	\$ 153,058
	(34,243)	(226)	(90,621)
	(832)	(120)	(9,323)
	34,058	-	34,073
	-	-	(46,291)
	-	-	(18,505)
	-	57	534
	-	-	(353)
	(1,017)	5	22,572
	1	-	14,623
	-	-	(28,960)
	3,695	-	3,760
	-	-	476
	-	-	(250)
	(506)	-	(506)
	37	-	37
	-	-	(443)
	-	-	2,050
	-	-	(46)
	3,227	-	(9,259)
	(39)	-	(452)
	-	-	1
	-	-	(1,145)
	(39)	-	(1,596)
	-	-	(2,520)
	-	-	427
	-	-	5
	44	-	364
	-	-	(4)
	44	-	(1,728)
	2,215	5	9,989
	-	163	24,994
\$	2,215	\$ 168	\$ 34,983

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued

NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 21,348	\$ 1,861	\$ 8,122	\$ 518
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	102	-	900	318
Amortization	-	-	164	-
Taxes	(14,620)	-	-	-
Interest expense	-	-	25	-
Securities lending expense	-	-	-	-
Investment earnings	-	(62)	(44)	-
Securities lending income	-	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(675)	409	99	(132)
Decr (incr) in due from other funds	11	-	1	12
Decr (incr) in due from component units	-	-	(1)	(7)
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(6)	-	(427)	(199)
Decr (incr) in other assets	(20)	-	466	-
Incr (decr) in accounts payable	533	1	9	2
Incr (decr) in lottery prizes payable	-	-	(227)	-
Incr (decr) in due to other funds	(25)	32	(25)	(7)
Incr (decr) in due to component units	-	-	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	48	(457)	(109)	13
Incr (decr) in amounts held in custody for others	20	-	6	-
Incr (decr) in compensated absences payable	25	(4)	5	(22)
Incr (decr) in estimated claims	-	(204)	-	-
Net cash provided by (used for) operating activities	\$ 6,741	\$ 1,576	\$ 8,964	\$ 496
Schedule of noncash transactions:				
Capital contributions from other funds	\$ -	\$ -	\$ -	\$ -
Amortization of bond issuance costs	-	-	-	-
Incr (decr) in fair value of investments	-	-	-	-
Total noncash transactions	\$ -	\$ -	\$ -	\$ -

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
3,106 \$	(127) \$	(89) \$	518 \$	(133) \$	(306)
-	-	-	17	1	20
-	-	-	113	-	-
-	-	-	-	-	-
-	63	-	-	-	-
-	-	4	-	-	-
(137)	(1)	(11)	(14)	-	-
-	-	(5)	-	-	-
294	-	-	(1)	65	58
-	(2)	-	11	(1)	(20)
506	(224)	(5)	1	-	(2)
-	-	-	-	-	-
-	-	-	(2)	23	277
-	(2)	-	15	-	-
(1,036)	-	-	(4)	14	-
-	-	-	-	-	-
-	-	-	(10)	(3)	6
(1)	-	-	-	-	-
-	-	-	-	-	-
-	-	-	(2)	(7)	-
(26)	-	-	91	-	-
2	-	-	(15)	6	(1)
1,219	1,622	-	-	-	-
3,927 \$	1,329 \$	(106) \$	718 \$	(35) \$	32
- \$	- \$	- \$	- \$	- \$	-
-	9	-	-	-	-
-	31	(69)	-	-	-
- \$	40 \$	(69) \$	- \$	- \$	-

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued

NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (5)	\$ (26)	\$ 9
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	27	-	-
Amortization	-	-	-
Taxes	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Investment earnings	-	-	(1)
Securities lending income	-	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	-	1	(104)
Decr (incr) in due from other funds	-	-	(4)
Decr (incr) in due from component units	-	-	88
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	(1)
Incr (decr) in accounts payable	(19)	(24)	(5)
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	-	-	-
Incr (decr) in due to component units	-	-	-
Incr (decr) in due to other governments	-	-	-
Incr (decr) in deferred revenue	-	-	-
Incr (decr) in amounts held in custody for others	1	-	-
Incr (decr) in compensated absences payable	1	4	-
Incr (decr) in estimated claims	-	-	-
Net cash provided by (used for) operating activities	\$ 5	\$ (45)	\$ (18)
Schedule of noncash transactions:			
Capital contributions from other funds	\$ -	\$ -	\$ -
Amortization of bond issuance costs	-	-	-
Incr (decr) in fair value of investments	-	-	-
Total noncash transactions	\$ -	\$ -	\$ -

	HUD SECTION 8 HOUSING		OTHER ENTERPRISE FUNDS		TOTAL
\$	(644)	\$	91	\$	34,243
	12		-		1,397
	9		-		286
	(1)		-		(14,621)
	-		-		88
	-		-		4
	(44)		-		(314)
	-		-		(5)
	263		-		277
	(23)		1		(14)
	-		-		356
	(200)		-		(200)
	-		(68)		(402)
	(15)		-		443
	-		(1)		(530)
	-		-		(227)
	(2)		(10)		(44)
	-		-		(1)
	(197)		-		(197)
	-		(6)		(520)
	-		-		92
	(175)		(2)		(176)
	-		-		2,637
\$	(1,017)	\$	5	\$	22,572
\$	41	\$	-	\$	41
	-		-		9
	-		-		(38)
\$	41	\$	-	\$	12

INTERNAL SERVICE FUNDS

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

FWP Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

Information Technology Services Division (ITSD) – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Administration Supply – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Mail & Messenger – This fund accounts for costs associated with intrastate government mail and package delivery.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of State Lands to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Records Management – State agencies are assessed a fee for records storage and microfilm services provided by the Office of the Secretary of State.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Statewide Fueling Network – This fund accounts for the costs associated with the development of a statewide fueling network, which will allow state agencies and local governments to utilize a single fueling network and management information system for all fueling transactions.

Procurement Card Purchases – The State Procurement Card program administers the State's MasterCard contract for the automated processing of small purchases.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

Other Internal Services – This category includes several small internal service funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS

INTERNAL SERVICE FUNDS

JUNE 30, 2004

(expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 162	\$ 52	\$ 16,532	\$ 1,971	\$ 4,890
Receivables (net)	12	7	3,081	53	-
Interfund loans receivable	-	-	-	374	-
Due from other governments	1	-	-	-	-
Due from other funds	215	926	10	2,137	27
Due from component units	-	-	-	352	6
Inventories	-	-	-	-	-
Securities lending collateral	-	-	1,016	-	-
Other current assets	6	-	1	16	-
Total current assets	396	985	20,640	4,903	4,923
Noncurrent assets:					
Long-term investments	-	-	4,277	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	9,825	112,455	17	34,255	-
Construction in progress	-	2,898	-	-	-
Intangible assets	-	-	-	1,703	-
Less accumulated depreciation	(3,259)	(57,807)	(16)	(29,722)	-
Total capital assets	6,566	57,546	1	6,236	-
Total noncurrent assets	6,566	57,546	4,278	6,236	-
Total assets	6,962	58,531	24,918	11,139	4,923
LIABILITIES					
Current liabilities:					
Accounts payable	215	955	2,170	3,008	236
Interfund loans payable	50	-	-	-	-
Due to other funds	-	1	16	72	193
Due to component units	-	-	-	33	17
Deferred revenue	-	-	909	-	-
Lease/installment purchase payable	-	-	-	50	-
Amounts held in custody for others	-	-	-	44	-
Securities lending liability	-	-	1,016	-	-
Estimated insurance claims	-	-	5,864	-	8,199
Compensated absences payable	2	439	30	972	44
Total current liabilities	267	1,395	10,005	4,179	8,689
Long-term liabilities:					
Advances from other funds	100	-	-	-	-
Lease/installment purchase payable	-	-	-	102	-
Estimated insurance claims	-	-	5,331	-	17,359
Compensated absences payable	-	317	19	523	88
Total long-term liabilities	100	317	5,350	625	17,447
Total liabilities	367	1,712	15,355	4,804	26,136
NET ASSETS					
Invested in capital assets, net of related debt	6,566	57,546	1	6,084	-
Unrestricted	29	(727)	9,562	251	(21,213)
Total net assets	\$ 6,595	\$ 56,819	\$ 9,563	\$ 6,335	\$ (21,213)

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 250	\$ 513	\$ 193	\$ 799	\$ 123	\$ 889	\$ 348	\$ 43
68	-	12	3	-	-	-	-
175	-	-	-	-	-	25	-
-	1	-	-	-	-	-	-
166	384	604	294	-	316	123	114
8	2	38	1	-	6	24	-
333	-	147	-	-	-	-	-
-	-	-	-	-	-	-	-
7	-	487	-	-	3	-	-
1,007	900	1,481	1,097	123	1,214	520	157
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	32	-	-	-	-
126	14,771	1,807	308	-	281	33	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(97)	(6,074)	(1,144)	(237)	-	(183)	(20)	-
29	8,933	663	198	-	98	13	-
29	8,933	663	198	-	98	13	-
1,036	9,833	2,144	1,295	123	1,312	533	157
193	114	286	382	27	354	46	44
-	2,052	-	-	10	7	-	-
3	1,804	20	9	2	255	6	43
-	-	-	-	-	-	-	-
-	-	36	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
20	14	87	83	71	253	96	109
216	3,984	429	474	110	870	148	196
-	3,181	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
30	17	53	40	61	224	86	5
30	3,198	53	40	61	224	86	5
246	7,182	482	514	171	1,094	234	201
29	8,933	663	198	-	98	13	-
761	(6,282)	999	583	(48)	120	286	(44)
\$ 790	\$ 2,651	\$ 1,662	\$ 781	\$ (48)	\$ 218	\$ 299	\$ (44)

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued

INTERNAL SERVICE FUNDS

JUNE 30, 2004

(expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
ASSETS				
Current assets:				
Cash/cash equivalents	\$ 1,390	\$ 101	\$ 122	\$ 1,111
Receivables (net)	-	-	-	-
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	264	-	55	50
Due from component units	8	-	36	45
Inventories	-	-	-	-
Securities lending collateral	-	-	-	-
Other current assets	-	-	-	12
Total current assets	1,662	101	213	1,218
Noncurrent assets:				
Long-term investments	-	-	-	-
Capital assets:				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings/improvements	-	-	-	-
Equipment	363	-	34	40
Construction in progress	-	-	-	-
Intangible assets	-	-	-	-
Less accumulated depreciation	(192)	-	(32)	(33)
Total capital assets	171	-	2	7
Total noncurrent assets	171	-	2	7
Total assets	1,833	101	215	1,225
LIABILITIES				
Current liabilities:				
Accounts payable	205	11	14	94
Interfund loans payable	-	-	-	-
Due to other funds	76	5	57	39
Due to component units	-	-	-	-
Deferred revenue	-	-	-	-
Lease/installment purchase payable	-	-	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	201	14	10	184
Total current liabilities	482	30	81	317
Long-term liabilities:				
Advances from other funds	-	-	-	-
Lease/installment purchase payable	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	168	27	-	134
Total long-term liabilities	168	27	-	134
Total liabilities	650	57	81	451
NET ASSETS				
Invested in capital assets, net of related debt	171	-	2	7
Unrestricted	1,012	44	132	767
Total net assets	\$ 1,183	\$ 44	\$ 134	\$ 774

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 86	\$ 100	\$ 56	\$ 140	\$ 266	\$ 142	\$ 30,279
-	-	1	-	7	-	3,244
-	-	-	-	-	-	574
-	1	-	-	-	-	3
80	105	10	-	292	9	6,181
-	3	-	-	-	-	529
-	-	-	-	218	123	821
-	-	-	-	-	-	1,016
-	-	2	-	-	-	534
166	209	69	140	783	274	43,181
-	-	-	-	-	-	4,277
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	-	2,820	-	2,852
39	-	-	-	1,185	69	175,608
-	-	-	-	-	-	2,898
-	-	-	-	-	-	1,703
(24)	-	-	-	(538)	(50)	(99,428)
15	-	-	-	3,467	19	83,964
15	-	-	-	3,467	19	88,241
181	209	69	140	4,250	293	131,422
39	48	17	5	64	11	8,538
-	100	-	-	-	-	2,219
-	4	5	2	39	2	2,653
-	-	-	-	-	-	50
-	-	1	-	22	-	968
-	-	-	-	-	-	50
-	-	-	-	-	-	45
-	-	-	-	-	-	1,016
-	-	-	-	-	-	14,063
11	86	10	4	38	1	2,779
50	238	33	11	163	14	32,381
-	-	-	-	180	-	3,461
-	-	-	-	-	-	102
-	-	-	-	-	-	22,690
32	57	15	-	11	-	1,907
32	57	15	-	191	-	28,160
82	295	48	11	354	14	60,541
15	-	-	-	3,467	19	83,812
84	(86)	21	129	429	260	(12,931)
\$ 99	\$ (86)	\$ 21	\$ 129	\$ 3,896	\$ 279	\$ 70,881

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
Operating revenues:					
Charges for services	\$ 2,210	\$ 18,890	\$ -	\$ 32,376	\$ -
Investment earnings	-	-	162	-	59
Securities lending income	-	-	4	-	-
Contributions/premiums	-	-	85,724	-	14,718
Taxes	-	1	-	-	-
Other operating revenues	-	12	308	104	6
Total operating revenues	2,210	18,903	86,198	32,480	14,783
Operating expenses:					
Personal services	75	5,845	681	9,292	654
Contractual services	75	615	2,803	2,662	4,108
Supplies/materials	689	4,528	28	1,213	24
Benefits/claims	-	-	73,355	-	(2,424)
Depreciation	575	5,774	-	2,039	-
Amortization	-	-	-	476	-
Utilities/rent	21	112	20	6,642	58
Communications	4	8	38	5,110	19
Travel	17	39	14	140	23
Repair/maintenance	559	3,060	2	2,070	1
Interest expense	-	-	-	50	-
Securities lending expense	-	-	3	-	-
Other operating expenses	8	201	265	779	133
Total operating expenses	2,023	20,182	77,209	30,473	2,596
Operating income (loss)	187	(1,279)	8,989	2,007	12,187
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	(108)	(10)	-	(8)	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(108)	(10)	-	(8)	-
Income (loss) before contributions and transfers	79	(1,289)	8,989	1,999	12,187
Capital contributions	-	-	-	-	-
Transfers in	66	-	-	68	615
Transfers out	-	-	-	-	(369)
Change in net assets	145	(1,289)	8,989	2,067	12,433
Total net assets - July 1 - as previously reported	6,451	56,903	547	4,112	(33,651)
Prior period adjustments	(1)	1,205	27	156	5
Total net assets - July 1 - as restated	6,450	58,108	574	4,268	(33,646)
Total net assets - June 30	\$ 6,595	\$ 56,819	9,563	\$ 6,335	\$ (21,213)

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 4,282	\$ 3,191	\$ 8,587	\$ 6,224	\$ 776	\$ 3,572	\$ 57	\$ 635
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2
-	12	1	-	-	-	896	-
4,282	3,203	8,588	6,224	776	3,572	953	637
328	271	1,140	1,120	707	3,438	861	968
46	214	84	2,421	26	269	32	335
4,099	869	3,890	125	8	205	54	56
-	-	-	-	-	-	-	-
7	1,454	286	31	-	30	5	-
-	-	-	-	-	-	-	-
95	16	165	2,001	30	330	84	129
24	2	2,801	19	10	69	14	73
-	-	3	10	7	28	8	11
3	223	179	512	3	23	2	35
-	213	-	-	-	-	-	-
-	-	-	-	-	-	-	-
26	9	52	220	26	202	7	(33)
4,628	3,271	8,600	6,459	817	4,594	1,067	1,574
(346)	(68)	(12)	(235)	(41)	(1,022)	(114)	(937)
-	(392)	(2)	-	-	(2)	-	-
-	-	-	-	-	968	-	910
-	(392)	(2)	-	-	966	-	910
(346)	(460)	(14)	(235)	(41)	(56)	(114)	(27)
-	-	420	-	-	-	-	-
-	-	482	500	-	-	-	-
-	-	-	-	(68)	-	-	-
(346)	(460)	888	265	(109)	(56)	(114)	(27)
1,136	3,292	845	515	62	274	413	(17)
-	(181)	(71)	1	(1)	-	-	-
1,136	3,111	774	516	61	274	413	(17)
\$ 790	\$ 2,651	\$ 1,662	\$ 781	\$ (48)	\$ 218	\$ 299	\$ (44)

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued

INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	DEQ INDIRECT COST POOL	MAIL & MESSENGER	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Operating revenues:					
Charges for services	\$ 2,058	\$ -	\$ 436	\$ 846	\$ 2,959
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Contributions/premiums	-	-	-	-	-
Taxes	-	-	-	-	-
Other operating revenues	56	-	-	-	-
Total operating revenues	2,114	-	436	846	2,959
Operating expenses:					
Personal services	2,468	-	266	182	2,025
Contractual services	692	-	110	193	272
Supplies/materials	179	-	7	9	60
Benefits/claims	-	-	-	-	-
Depreciation	49	-	-	-	4
Amortization	-	-	-	-	-
Utilities/rent	98	-	10	9	143
Communications	45	-	7	445	28
Travel	(6)	-	-	-	37
Repair/maintenance	9	-	1	1	26
Interest expense	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Other operating expenses	77	-	11	53	252
Total operating expenses	3,611	-	412	892	2,847
Operating income (loss)	(1,497)	-	24	(46)	112
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	(1)	-	-	-	-
Federal indirect cost recoveries	1,572	-	-	-	-
Total nonoperating revenues (expenses)	1,571	-	-	-	-
Income (loss) before contributions and transfers	74	-	24	(46)	112
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	(902)	-	-	-
Change in net assets	74	(902)	24	(46)	112
Total net assets - July 1 - as previously reported	1,109	902	20	180	662
Prior period adjustments (Note 3)	-	-	-	-	-
Total net assets - July 1 - as restated	1,109	902	20	180	662
Total net assets - June 30	\$ 1,183	\$ -	\$ 44	\$ 134	\$ 774

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 614	\$ 1,146	\$ 285	\$ 171	\$ 2,952	\$ 221	\$ 92,488
-	-	-	-	-	-	221
-	-	-	-	-	-	4
-	-	-	-	-	-	100,442
-	-	-	-	-	-	3
-	-	-	-	-	9	1,404
614	1,146	285	171	2,952	230	194,562
364	908	154	107	896	72	32,822
65	130	45	14	10	11	15,232
151	19	22	13	1,745	131	18,124
-	-	-	-	-	-	70,931
2	-	-	-	178	4	10,438
-	-	-	-	-	-	476
74	57	26	3	65	4	10,192
6	18	8	7	1	4	8,760
25	4	26	-	2	3	391
398	3	2	-	16	13	7,141
-	-	-	-	-	-	263
-	-	-	-	-	-	3
28	11	9	1	5	3	2,345
1,113	1,150	292	145	2,918	245	177,118
(499)	(4)	(7)	26	34	(15)	17,444
-	-	-	-	-	-	(523)
-	-	-	-	-	-	3,450
-	-	-	-	-	-	2,927
(499)	(4)	(7)	26	34	(15)	20,371
-	-	-	-	-	-	420
436	-	-	-	-	-	2,167
-	-	-	-	-	-	(1,339)
(63)	(4)	(7)	26	34	(15)	21,619
162	(82)	28	103	3,862	294	48,122
-	-	-	-	-	-	1,140
162	(82)	28	103	3,862	294	49,262
\$ 99	\$ (86)	\$ 21	\$ 129	\$ 3,896	\$ 279	\$ 70,881

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
 (expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 2,173	\$ 18,841	\$ 85,600	\$ 31,924	\$ 14,712
Payments to suppliers for goods and services	(1,356)	(9,049)	(3,199)	(17,388)	(4,570)
Payments to employees	(75)	(5,762)	(669)	(9,137)	(611)
Grant receipts	-	-	-	-	-
Cash payments for claims	-	-	(73,845)	-	(2,963)
Other operating revenues	57	1	408	104	6
Net cash provided by (used for) operating activities	799	4,031	8,295	5,503	6,574
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Proceeds from issuance of bonds and notes	-	-	-	-	-
Transfers to other funds	-	-	-	-	(274)
Transfers from other funds	66	-	-	60	620
Proceeds from interfund loans/advances	50	-	-	184	2,000
Payment of interfund loans/advances	(200)	-	-	(374)	(4,500)
Net cash provided by (used for) noncapital financing activities	(84)	-	-	(130)	(2,154)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(874)	(6,051)	-	(3,339)	-
Proceeds from sale of capital assets	157	489	-	-	-
Principal and interest payments on bonds and notes	-	-	-	(2,495)	-
Net cash used for capital and related financing activities	(717)	(5,562)	-	(5,834)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(2,946)	-	-
Proceeds from sales or maturities of investments	-	-	2,725	-	-
Proceeds from securities lending transactions	-	-	4	-	-
Interest and dividends on investments	-	-	377	-	59
Payment of securities lending costs	-	-	(3)	-	-
Net cash provided by (used for) investing activities	-	-	157	-	59
Net increase (decrease) in cash and cash equivalents	(2)	(1,531)	8,452	(461)	4,479
Cash and cash equivalents, July 1	164	1,583	8,080	2,432	411
Cash and cash equivalents, June 30	\$ 162	\$ 52	\$ 16,532	\$ 1,971	\$ 4,890

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 4,261	\$ 3,376	\$ 8,844	\$ 6,247	\$ 774	\$ 3,622	\$ 24	\$ 648
(4,219)	(1,484)	(7,648)	(5,117)	(112)	(1,027)	(232)	(671)
(345)	(265)	(1,140)	(1,116)	(636)	(3,345)	(812)	(1,003)
-	-	-	-	-	1,061	30	892
-	-	-	-	-	-	-	-
-	12	1	-	-	-	896	4
(303)	1,639	57	14	26	311	(94)	(130)
-	(2,573)	-	-	-	-	-	-
-	3,701	-	-	-	-	-	-
-	-	-	(193)	(58)	-	-	-
-	-	9	425	-	60	-	-
250	2,052	-	-	10	7	100	-
(175)	(1,432)	-	-	-	-	(25)	-
75	1,748	9	232	(48)	67	75	-
(8)	(3,715)	(222)	(16)	-	(16)	(6)	-
-	429	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(8)	(3,286)	(222)	(16)	-	(16)	(6)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2	-
(236)	101	(156)	230	(22)	362	(23)	(130)
486	412	349	569	145	527	371	173
\$ 250	\$ 513	\$ 193	\$ 799	\$ 123	\$ 889	\$ 348	\$ 43

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued

INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	DEQ INDIRECT COST POOL	MAIL & MESSENGER	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 2,240	\$ -	\$ 436	\$ 828	\$ 2,968
Payments to suppliers for goods and services	(941)	-	(150)	(709)	(808)
Payments to employees	(2,397)	-	(258)	(177)	(1,993)
Grant receipts	1,686	-	-	-	-
Cash payments for claims	-	-	-	-	-
Other operating revenues	-	-	-	-	-
Net cash provided by (used for) operating activities	588	-	28	(58)	167
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Proceeds from issuance of bonds and notes	-	-	-	-	-
Transfers to other funds	-	(9)	-	-	-
Transfers from other funds	-	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-	-
Payment of interfund loans/advances	-	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	(9)	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(74)	-	-	-	-
Proceeds from sale of capital assets	1	-	-	-	-
Principal and interest payments on bonds and notes	-	-	-	-	-
Net cash used for capital and related financing activities	(73)	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	-	-	-
Proceeds from sales or maturities of investments	-	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-	-
Interest and dividends on investments	-	-	-	-	-
Payment of securities lending costs	-	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	515	(9)	28	(58)	167
Cash and cash equivalents, July 1	875	9	73	180	944
Cash and cash equivalents, June 30	\$ 1,390	\$ -	\$ 101	\$ 122	\$ 1,111

	AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$	605	\$ 1,234	\$ 289	\$ 182	\$ 2,924	\$ 224	\$ 192,976
	(740)	(249)	(136)	(36)	(2,066)	(163)	(62,070)
	(358)	(927)	(152)	(105)	(893)	(71)	(32,247)
	-	-	-	-	-	-	3,669
	-	-	-	-	-	-	(76,808)
	-	-	1	-	-	9	1,499
	(493)	58	2	41	(35)	(1)	27,019
	-	-	-	-	-	-	(2,573)
	-	-	-	-	-	-	3,701
	-	-	-	-	-	-	(534)
	398	-	-	-	-	-	1,638
	-	100	-	-	-	-	4,753
	-	(100)	-	-	(75)	-	(6,881)
	398	-	-	-	(75)	-	104
	-	-	-	-	(138)	-	(14,459)
	-	-	-	-	-	-	1,076
	-	-	-	-	-	-	(2,495)
	-	-	-	-	(138)	-	(15,878)
	-	-	-	-	-	-	(2,946)
	-	-	-	-	-	-	2,727
	-	-	-	-	-	-	4
	-	-	-	-	-	-	436
	-	-	-	-	-	-	(3)
	-	-	-	-	-	-	218
	(95)	58	2	41	(248)	(1)	11,463
	181	42	54	99	514	143	18,816
\$	86	\$ 100	\$ 56	\$ 140	\$ 266	\$ 142	\$ 30,279

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued

INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 187	\$ (1,279)	\$ 8,989	\$ 2,007	\$ 12,187
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	575	5,774	-	2,039	-
Amortization	-	-	-	476	-
Interest expense	-	-	-	50	-
Securities lending expense	-	-	3	-	-
Investment earnings	-	-	(162)	-	(59)
Securities lending income	-	-	(4)	-	-
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(9)	(2)	(48)	(12)	-
Decr (incr) in due from other funds	(29)	(58)	(6)	340	9
Decr (incr) in due from component units	-	-	-	(134)	(1)
Decr (incr) in inventories	-	-	-	-	-
Decr (incr) in other assets	-	-	(1)	5	-
Incr (decr) in accounts payable	76	(440)	(220)	993	(126)
Incr (decr) in due to other funds	(1)	(1)	(2)	56	(76)
Incr (decr) in due to component units	-	(7)	-	19	(10)
Incr (decr) in deferred revenue	-	-	36	(377)	-
Incr (decr) in amounts held in custody for others	-	-	-	(8)	-
Incr (decr) in compensated absences payable	-	44	1	49	19
Incr (decr) in estimated claims	-	-	(291)	-	(5,369)
Net cash provided by (used for) operating activities	\$ 799	\$ 4,031	\$ 8,295	\$ 5,503	\$ 6,574
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ 1,084	\$ -
Capital contributions from other funds	-	-	-	-	-
Capital contributions to other funds	-	-	-	-	-
Incr (decr) in fair value of investments	-	-	(209)	-	-
Total noncash transactions	\$ -	\$ -	\$ (209)	\$ 1,084	\$ -

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ (346)	\$ (68)	\$ (12)	\$ (235)	\$ (41)	\$ (1,022)	\$ (114)	\$ (937)
7	1,454	286	31	-	30	5	-
-	-	-	-	-	-	-	-
-	213	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	968	-	910
(39)	1	6	1	-	-	-	-
2	79	443	16	-	(60)	4	(3)
16	(1)	(19)	-	-	4	(6)	-
87	-	(12)	-	-	-	-	-
(1)	-	(487)	-	-	(4)	-	2
(10)	(148)	5	206	8	121	9	-
(2)	105	17	5	(1)	216	(2)	(72)
-	-	-	-	-	-	(3)	-
-	-	(155)	-	-	-	-	-
-	-	-	-	-	-	(31)	-
(17)	4	(15)	(10)	60	58	44	(30)
-	-	-	-	-	-	-	-
\$ (303)	\$ 1,639	\$ 57	\$ 14	\$ 26	\$ 311	\$ (94)	\$ (130)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	420	-	-	-	-	-
-	-	-	-	(9)	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ 420	\$ -	\$ (9)	\$ -	\$ -	\$ -

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued

INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	DEQ INDIRECT COST POOL	MAIL & MESSENGER	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (1,497)	\$ -	\$ 24	\$ (46)	\$ 112
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	49	-	-	-	4
Amortization	-	-	-	-	-
Interest expense	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Federal indirect cost recoveries	1,572	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	-	-	-	26
Decr (incr) in due from other funds	315	-	-	(20)	(8)
Decr (incr) in due from component units	(5)	-	-	2	6
Decr (incr) in inventories	-	-	-	-	-
Decr (incr) in other assets	-	-	-	-	1
Incr (decr) in accounts payable	62	-	(1)	(6)	9
Incr (decr) in due to other funds	53	-	(3)	11	(4)
Incr (decr) in due to component units	-	-	-	-	-
Incr (decr) in deferred revenue	-	-	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-	-
Incr (decr) in compensated absences payable	39	-	8	1	21
Incr (decr) in estimated claims	-	-	-	-	-
Net cash provided by (used for) operating activities	\$ 588	\$ -	\$ 28	\$ (58)	\$ 167
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	-
Capital contributions from other funds	-	-	-	-	-
Capital contributions to other funds	-	(420)	-	-	-
Incr (decr) in fair value of investments	-	-	-	-	-
Total noncash transactions	\$ -	\$ (420)	\$ -	\$ -	-

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ (499)	\$ (4)	\$ (7)	\$ 26	\$ 34	\$ (15)	\$ 17,444
2	-	-	-	178	4	10,438
-	-	-	-	-	-	476
-	-	-	-	-	-	263
-	-	-	-	-	-	3
-	-	-	-	-	-	(221)
-	-	-	-	-	-	(4)
-	-	-	-	-	-	3,450
-	-	5	-	14	-	(57)
(9)	71	2	10	(63)	2	1,037
-	-	-	-	-	-	(138)
-	-	-	-	(83)	8	-
-	-	(2)	-	-	-	(487)
5	1	6	1	13	1	565
(1)	(3)	(1)	1	(147)	(1)	147
-	-	-	-	-	-	(1)
-	-	(3)	-	22	-	(477)
-	-	-	-	-	-	(39)
9	(7)	2	3	(3)	-	280
-	-	-	-	-	-	(5,660)
\$ (493)	\$ 58	\$ 2	\$ 41	\$ (35)	\$ (1)	\$ 27,019
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,084
-	-	-	-	-	-	420
-	-	-	-	-	-	(429)
-	-	-	-	-	-	(209)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 866

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PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

Public Employee Retirement System - Defined Benefit Retirement Plan – This fund provides retirement benefits to substantially all public employees not covered by another public system.

Municipal Police Officers Retirement System – This fund provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System – This fund provides retirement benefits for firefighters employed by first and second- class cities and other cities that wish to adopt the plan.

Sheriffs Retirement System – This fund provides retirement benefits for sheriffs and State Department of Justice investigators.

Highway Patrol Officers Retirement System – This fund provides retirement benefits for all members of the Montana Highway Patrol.

Judges Retirement System – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Game Wardens & Peace Officers Retirement System – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Volunteer Firefighters Compensation Act – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

Public Employee Retirement System - Defined Contribution Retirement Plan – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

Public Employee 457 Plan – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

Teachers Retirement System – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Voluntary Employee Benefit Association – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2004
(expressed in thousands)

PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)

	PUBLIC EMPLOYEE DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ASSETS						
Cash/cash equivalents	\$ 103,723	\$ 3,405	\$ 3,415	\$ 5,102	\$ 2,462	\$ 1,734
Receivables (net):						
Accounts receivable	1,431	54	43	130	-	-
Interest	10,400	489	465	478	271	153
Due from primary government	74	7,208	6,533	-	-	-
Due from other PERB plans	288	-	11	2	14	7
Long-term notes/loans receivable	326	-	-	-	-	-
Advances to other PERB plans	86	-	-	-	-	-
Total receivables	12,605	7,751	7,052	610	285	160
Investments at fair value:						
Equity in pooled investments	2,839,516	137,322	130,726	134,855	75,881	43,062
Other investments	75,165	-	-	-	-	-
Total investments	2,914,681	137,322	130,726	134,855	75,881	43,062
Securities lending collateral	141,311	7,143	6,801	6,997	3,952	2,237
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(4)	-	-	-	-	-
Intangible assets	535	6	6	6	6	6
Total capital assets	536	6	6	6	6	6
Other assets	-	-	-	-	-	-
Total assets	3,172,856	155,627	148,000	147,570	82,586	47,199
LIABILITIES						
Accounts payable	439	6	-	18	-	-
Due to primary government	57	-	-	-	-	-
Due to other PERB plans	73	65	49	51	25	7
Due to other funds	-	-	-	-	-	-
Advances from primary government	-	-	-	-	-	-
Advances from other PERB plans	-	-	-	-	-	-
Advances from other funds	-	-	-	-	-	-
Deferred revenue	51	2	4	-	-	-
Securities lending liability	141,311	7,143	6,801	6,997	3,952	2,237
Compensated absences payable	246	-	-	-	-	-
Total liabilities	142,177	7,216	6,854	7,066	3,977	2,244
NET ASSETS						
Held in trust for pension benefits and other purposes	\$ 3,030,679	\$ 148,411	\$ 141,146	\$ 140,504	\$ 78,609	\$ 44,955

PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)

GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEE DEFINED CONTRIBUTION	PUBLIC EMPLOYEE 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
\$ 2,536	\$ 181	\$ 337	\$ 407	\$ 78,154	\$ 12	\$ 201,468
3	-	-	1	14,338	4	16,004
151	66	-	-	8,056	-	20,529
-	1,434	-	-	80	-	15,329
5	24	28	-	-	-	379
-	-	-	-	-	-	326
-	-	-	-	-	-	86
159	1,524	28	1	22,474	4	52,653
42,585	18,433	-	-	2,189,336	-	5,611,716
-	-	20,480	224,376	64,698	122	384,841
42,585	18,433	20,480	224,376	2,254,034	122	5,996,557
2,209	963	-	-	108,507	-	280,120
-	-	-	-	35	-	35
-	-	-	-	158	-	158
-	-	-	-	147	-	152
-	-	-	-	(255)	-	(259)
6	-	6	157	777	-	1,511
6	-	6	157	862	-	1,597
-	-	-	-	4	4	8
47,495	21,101	20,851	224,941	2,464,035	142	6,532,403
3	-	5	169	247	8	895
-	-	25	1	328	-	411
37	43	27	2	-	-	379
-	-	-	-	-	24	24
-	-	1,390	-	-	-	1,390
-	-	86	-	-	-	86
-	-	-	-	-	204	204
-	-	-	-	-	-	57
2,209	963	-	-	108,507	-	280,120
-	-	20	20	109	1	396
2,249	1,006	1,553	192	109,191	237	283,962
\$ 45,246	\$ 20,095	\$ 19,298	\$ 224,749	\$ 2,354,844	\$ (95)	\$ 6,248,441

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEE DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ADDITIONS						
Contributions/premiums:						
Employer	\$ 57,802	\$ 3,612	\$ 2,795	\$ 2,679	\$ 2,859	\$ 1,136
Employee	61,911	2,263	2,212	2,656	743	443
Other contributions	1,584	7,258	6,535	34	348	-
Net investment earnings:						
Investment earnings	363,751	16,541	15,834	16,552	9,406	5,295
Administrative investment expense	(3,761)	(163)	(155)	(161)	(91)	(51)
Securities lending income	1,487	75	72	74	42	24
Securities lending expense	(1,211)	(62)	(59)	(61)	(35)	(19)
Charges for services	-	-	-	-	-	-
Other additions	1	-	-	-	-	-
Total additions	481,564	29,524	27,234	21,773	13,272	6,828
DEDUCTIONS						
Benefits	132,684	10,884	9,676	4,902	5,493	1,671
Refunds	11,311	388	78	318	296	-
Administrative expenses:						
Personal services	1,336	-	-	-	-	-
Contractual services	550	6	-	-	-	-
Supplies/materials	44	-	-	-	-	1
Depreciation	559	6	6	6	6	6
Amortization	-	-	-	-	-	-
Utilities/rent	167	-	-	-	-	-
Communications	139	-	-	-	-	-
Travel	29	-	-	-	-	-
Repair/maintenance	2	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Other operating expenses	-	58	47	49	25	7
Local assistance	-	-	-	-	-	-
Loss on capital assets	-	-	-	-	-	-
Transfers to ORP	188	-	-	-	-	-
Transfers to PERS-DCRP	1,295	-	-	-	-	-
Total deductions	148,304	11,342	9,807	5,275	5,820	1,685
Change in net assets	333,260	18,182	17,427	16,498	7,452	5,143
Net assets - July 1 - as previously reported	2,696,363	130,225	123,697	123,994	71,131	39,792
Prior period adjustments	1,056	4	22	12	26	20
Net assets - July 1 - as restated	2,697,419	130,229	123,719	124,006	71,157	39,812
Net assets - June 30	\$ 3,030,679	\$ 148,411	\$ 141,146	\$ 140,504	\$ 78,609	\$ 44,955

PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)						
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEE DEFINED CONTRIBUTION	PUBLIC EMPLOYEE 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
\$ 2,021	\$ -	\$ 1,781	\$ 40	\$ 55,774	\$ 128	\$ 130,627
2,689	-	2,661	14,623	51,383	-	141,584
25	1,434	-	-	770	-	17,988
5,119	2,291	2,381	16,603	284,527	1	738,301
(51)	(22)	-	(451)	(2,949)	-	(7,855)
23	10	-	-	1,153	-	2,960
(19)	(8)	-	-	(938)	-	(2,412)
-	-	127	267	-	-	394
-	-	135	-	-	-	136
9,807	3,705	7,085	31,082	389,720	129	1,021,723
1,458	1,479	2,238	14,448	150,271	2	335,206
504	-	-	-	5,843	-	18,738
-	-	94	112	758	20	2,320
-	-	256	827	377	43	2,059
-	-	3	1	26	-	75
6	-	6	-	9	-	610
-	-	-	3	154	-	157
-	-	15	11	41	-	234
-	-	4	6	40	-	189
-	-	5	5	13	-	52
-	-	-	-	41	-	43
-	-	41	-	-	5	46
36	40	4	3	46	1	316
-	12	-	-	-	-	12
-	-	-	-	890	-	890
-	-	-	-	-	-	188
-	-	-	-	-	-	1,295
2,004	1,531	2,666	15,416	158,509	71	362,430
7,803	2,174	4,419	15,666	231,211	58	659,293
37,428	17,900	14,879	208,342	2,123,633	(153)	5,587,231
15	21	-	741	-	-	1,917
37,443	17,921	14,879	209,083	2,123,633	(153)	5,589,148
\$ 45,246	\$ 20,095	\$ 19,298	\$ 224,749	\$ 2,354,844	\$ (95)	\$ 6,248,441

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PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

Escheated Property – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified..

Plan 1 Securities – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee's behalf.

Woodville Highway Replacement – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

Cisco Academies – This trust distributes private donations used to support the ongoing needs of regional and local academies to train students in information technology skills. In fiscal year 2004, the last of these donations was distributed to the Montana Colleges of Technology for use in their scholarship programs.

Moore-Sipple Connector – Money is held in trust to insure the continued operation of the Moore-Sipple Connector. The balance in this fund reverts to the railroad company if the line is in operation until 2010. As the result of a court order, until this date is reached, the interest earnings on this money are provided to the Central Montana Rail for use in operating the railroad.

Environmental Reclamation – This fund accounts for environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related reclamation process.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

PRIVATE-PURPOSE TRUST FUNDS

JUNE 30, 2004

(expressed in thousands)

	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS			
Cash/cash equivalents	\$ 398	\$ -	\$ 40
Receivables (net):			
Accounts receivable	-	-	-
Total receivables	-	-	-
Other assets	-	3,404	-
Total assets	398	3,404	40
LIABILITIES			
Accounts payable	2	-	-
Total liabilities	2	-	-
NET ASSETS			
Held in trust for other purposes	\$ 396	\$ 3,404	\$ 40

MOORE- SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
\$ 239	\$ 1,502	\$ 2,179
-	7	7
-	7	7
-	2,453	5,857
239	3,962	8,043
-	6	8
-	6	8
\$ 239	\$ 3,956	\$ 8,035

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS			
Net investment earnings:			
Investment earnings	\$ 3	\$ -	\$ -
Other additions	1,662	-	-
Total additions	1,665	-	-
DEDUCTIONS			
Distributions	1,643	-	-
Administrative expenses:			
Contractual services	-	-	4
Grants	-	-	-
Total deductions	1,643	-	4
Change in net assets	22	-	(4)
Net assets - July 1 -			
as previously reported	459	3,404	44
Prior period adjustments	(85)	-	-
Net assets - July 1 -			
as restated	374	3,404	44
Net assets - June 30	\$ 396	\$ 3,404	\$ 40

CISCO ACADEMIES	MOORE- SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
\$ -	\$ 3	\$ 8	\$ 14
-	-	480	2,142
-	3	488	2,156
8	-	388	2,039
-	-	-	4
-	3	-	3
8	3	388	2,046
(8)	-	100	110
8	239	765	4,919
-	-	3,091	3,006
8	239	3,856	7,925
\$ -	\$ 239	\$ 3,956	\$ 8,035

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AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

Investment Pool – This fund accounts for idle cash invested on a pooled basis for local governments and other public entities.

Performance Deposits – This fund accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

Criminal Offender Restitution – Accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund.

Child Support Collections – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

Intergovernmental – This fund accounts for resources that flow through state agencies to federal and local governments.

Debt Collection – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

Milk Passthrough – This fund accounts for the distribution of the proceeds from the sale of pooled milk. In fiscal year 2002, this fund was included with the Stock Estray Agency Fund. The activity related to stock estray was reclassified to the State Special Revenue Fund in fiscal year 2003.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

JUNE 30, 2004

(expressed in thousands)

	INVESTMENT POOL	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION
ASSETS				
Cash/cash equivalents	\$ 109,214	\$ 5,436	\$ 248	\$ 146
Receivables (net):				
Accounts receivable	-	-	1	413
Interest	44,319	-	-	-
Total receivables	44,319	-	1	413
Other assets	-	11,672	-	-
Total assets	153,533	17,108	249	559
LIABILITIES				
Accounts payable	49,943	27	10	415
Amounts held in custody for others	103,590	17,081	239	144
Total liabilities	153,533	17,108	249	559

CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS	UNCLEARED COLLECTIONS	INTER- GOVERNMENTAL	DEBT COLLECTION	MILK PASS- THROUGH	TOTAL
\$ 1,207	\$ 993	\$ 91	\$ 973	\$ 123	\$ 58	\$ 118,489
-	292	-	-	13	-	719
-	-	-	-	-	-	44,319
-	292	-	-	13	-	45,038
-	-	-	-	-	-	11,672
1,207	1,285	91	973	136	58	175,199
9	457	91	101	17	-	51,070
1,198	828	-	872	119	58	124,129
1,207	1,285	91	973	136	58	175,199

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

FUND	BALANCE JUNE 30, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
INVESTMENT POOL:				
ASSETS				
Cash/cash equivalents	\$ 85,825	\$ 27,117,177	\$ 27,093,788	\$ 109,214
Receivables (net)	46,857	238,425	240,963	44,319
Equity in pooled investments	-	13,339,484	13,339,484	-
Investments	-	24,961,873	24,961,873	-
Deferred gains (losses)	-	1,055,695	1,055,695	-
Securities lending collateral	-	710,859	710,859	-
Total assets	\$ 132,682	\$ 67,423,513	\$ 67,402,662	\$ 153,533
LIABILITIES				
Accounts payable	\$ 26,338	\$ 50,101	26,496	\$ 49,943
Due to other governments	-	1,788,476	1,788,476	-
Amounts held in custody for others	106,344	14,952,107	14,954,861	103,590
Securities lending liability	-	710,859	710,859	-
Other liabilities	-	229,152	229,152	-
Total liabilities	\$ 132,682	\$ 17,730,695	\$ 17,709,844	\$ 153,533
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	\$ 14,223	\$ 204,232	\$ 213,019	\$ 5,436
Other assets	12,580	783	1,691	11,672
Total assets	\$ 26,803	\$ 205,015	\$ 214,710	\$ 17,108
LIABILITIES				
Accounts payable	\$ 36	\$ 28,203	\$ 28,212	\$ 27
Amounts held in custody for others	26,767	55,509	65,195	17,081
Other liabilities	-	48,433	48,433	-
Total liabilities	\$ 26,803	\$ 132,145	\$ 141,840	\$ 17,108
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	\$ 333	\$ 596,310	\$ 596,395	\$ 248
Receivables (net)	1	-	-	1
Total assets	\$ 334	\$ 596,310	\$ 596,395	\$ 249
LIABILITIES				
Accounts payable	\$ 275	\$ 11,630	\$ 11,895	\$ 10
Amounts held in custody for others	59	586,024	585,844	239
Total liabilities	\$ 334	\$ 597,654	\$ 597,739	\$ 249

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FUND	BALANCE JUNE 30, 2003		ADDITIONS		DEDUCTIONS		BALANCE JUNE 30, 2004	
CRIMINAL OFFENDER RESTITUTION:								
ASSETS								
Cash/cash equivalents	\$	8	\$	146	\$	8	\$	146
Receivables (net)		385		29		1		413
Total assets	\$	393	\$	175	\$	9	\$	559
LIABILITIES								
Accounts payable	\$	392		37		14		415
Amounts held in custody for others		1		1,397		1,254		144
Total liabilities	\$	393	\$	1,434	\$	1,268	\$	559
CUSTODIAL ACCOUNTS:								
ASSETS								
Cash/cash equivalents	\$	1,027	\$	7,492	\$	7,312	\$	1,207
Total assets	\$	1,027	\$	7,492	\$	7,312	\$	1,207
LIABILITIES								
Accounts payable	\$	28	\$	436	\$	455	\$	9
Amounts held in custody for others		999		17,344		17,145		1,198
Other liabilities		-		5,585		5,585		-
Total liabilities	\$	1,027	\$	23,365	\$	23,185	\$	1,207
CHILD SUPPORT COLLECTIONS:								
ASSETS								
Cash/cash equivalents	\$	984	\$	68,364	\$	68,355	\$	993
Receivables (net)		588		1,556		1,852		292
Total assets	\$	1,572	\$	69,920	\$	70,207	\$	1,285
LIABILITIES								
Accounts payable	\$	822	\$	38,895	\$	39,260	\$	457
Other liabilities		-		10		10		-
Amounts held in custody for others		750		67,736		67,658		828
Total liabilities	\$	1,572	\$	106,641	\$	106,928	\$	1,285
UNCLEARED COLLECTIONS:								
ASSETS								
Cash/cash equivalents	\$	-	\$	10,996,483	\$	10,996,392	\$	91
Receivables (net)		-		278,209		278,209		-
Investments		-		6		6		-
Other assets		-		2		2		-
Total assets	\$	-	\$	11,274,700	\$	11,274,609	\$	91
LIABILITIES								
Accounts payable	\$	-	\$	2,406	\$	2,315	\$	91
Due to other governments		-		3,201		3,201		-
Amounts held in custody for others		-		26		26		-
Other liabilities		-		411,565		411,565		-
Total liabilities	\$	-	\$	417,198	\$	417,107	\$	91

(Continued on Next Page)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - Continued

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

FUND	BALANCE JUNE 30, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	\$ 3,619	\$ 241,888	\$ 244,534	\$ 973
Receivables (net)	44	24	68	-
Total assets	\$ 3,663	\$ 241,912	\$ 244,602	\$ 973
LIABILITIES				
Accounts payable	\$ 132	\$ 3,988	\$ 4,019	\$ 101
Amounts held in custody for others	3,531	3,144	5,803	872
Total liabilities	\$ 3,663	\$ 7,132	\$ 9,822	\$ 973
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	\$ 89	\$ 1,962	\$ 1,928	\$ 123
Receivables (net)	12	17	16	13
Total assets	\$ 101	\$ 1,979	\$ 1,944	\$ 136
LIABILITIES				
Accounts payable	\$ 2	\$ 957	\$ 942	\$ 17
Amounts held in custody for others	99	1,663	1,643	119
Estimated claims payable	-	340	340	-
Other liabilities	-	211	211	-
Total liabilities	\$ 101	\$ 3,171	\$ 3,136	\$ 136
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	\$ 57	\$ 603	\$ 602	\$ 58
Total assets	\$ 57	\$ 603	\$ 602	\$ 58
LIABILITIES				
Accounts payable	\$ 30	\$ 568	\$ 598	\$ -
Amounts held in custody for others	27	603	572	58
Total liabilities	\$ 57	\$ 1,171	\$ 1,170	\$ 58

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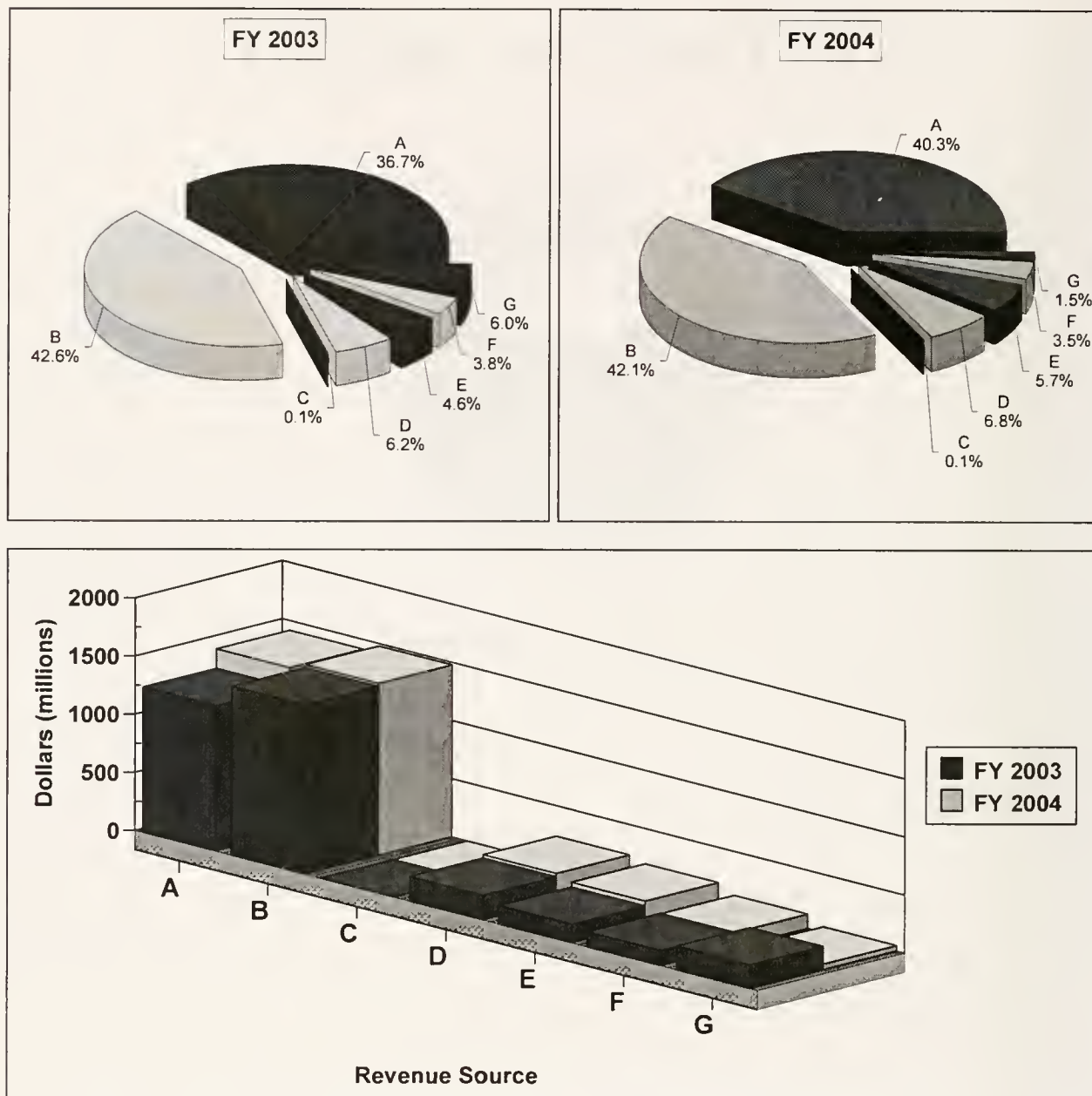
FUND	BALANCE JUNE 30, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	\$ 106,165	\$ 39,234,657	\$ 39,222,333	\$ 118,489
Receivables (net)	47,887	518,260	521,109	45,038
Equity in pooled investments	-	13,339,484	13,339,484	-
Investments	-	24,961,879	24,961,879	-
Deferred gains (losses)	-	1,055,695	1,055,695	-
Securities lending collateral	-	710,859	710,859	-
Other assets	12,580	785	1,693	11,672
Total assets	\$ 166,632	\$ 79,821,619	\$ 79,813,052	\$ 175,199
LIABILITIES				
Accounts payable	\$ 28,055	\$ 137,221	\$ 114,206	\$ 51,070
Due to other governments	-	1,791,677	1,791,677	-
Amounts held in custody for others	138,577	15,685,553	15,700,001	124,129
Securities lending liability	-	710,859	710,859	-
Estimated claims payable	-	340	340	-
Other liabilities	-	694,956	694,956	-
Total liabilities	\$ 166,632	\$ 19,020,606	\$ 19,012,039	\$ 175,199

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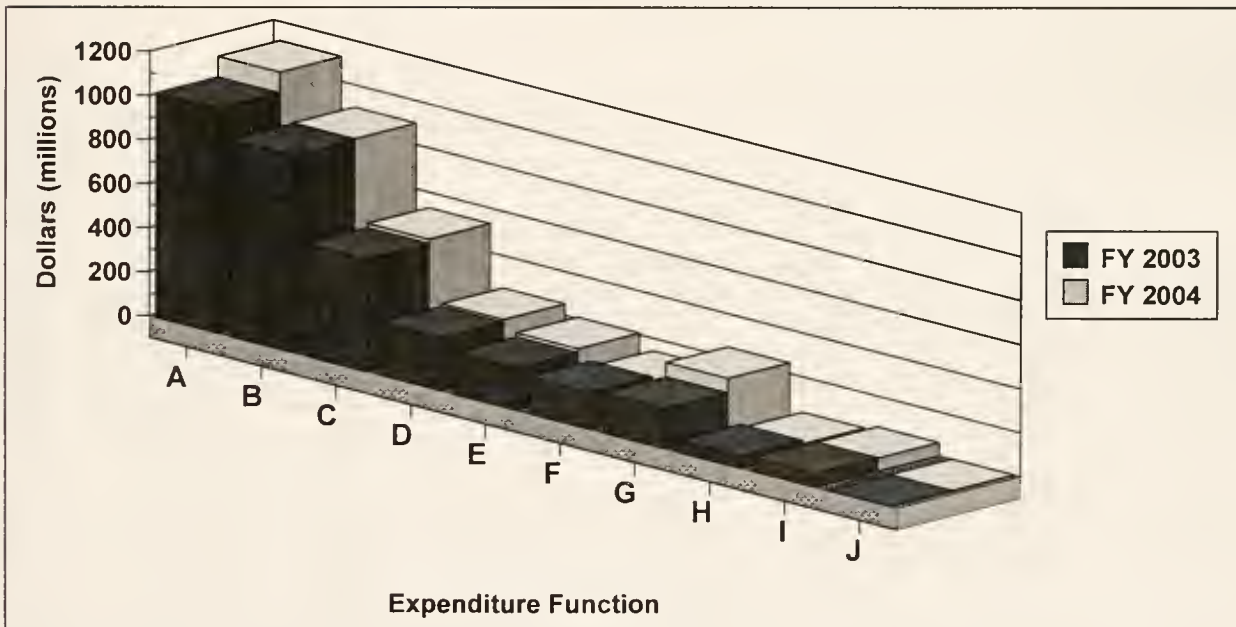
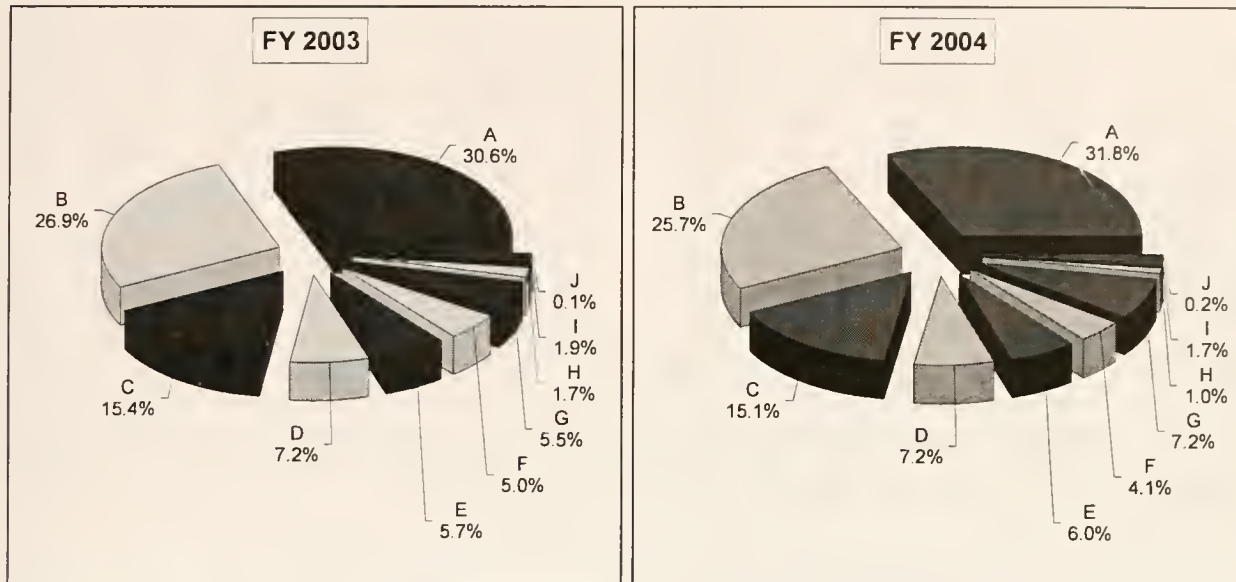
STATISTICAL SECTION



Revenues by Source All Governmental Fund Types



Expenditures by Function All Governmental Fund Types



Legend:

- | | | |
|----------------------------|-------------------------------------|------------------------|
| (A) Health/Social Services | (E) Public Safety/Corrections | (I) Capital Outlay |
| (B) Educational/Cultural | (F) Economic Development/Assistance | (J) Securities Lending |
| (C) Transportation | (G) Resource/Recreation/Environment | |
| (D) General Government | (H) Debt Service | |

REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES

For the Last Ten Fiscal Years
(expressed in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Licenses/permits	\$ 106,109	\$ 110,043	\$ 112,761	\$ 116,706	\$ 117,950	\$ 125,782	\$ 126,438	\$ 202,490	\$ 210,611	\$ 240,612
Taxes	1,080,529	997,874	1,041,840	1,120,907	1,191,607	1,244,622	1,333,697	1,229,613	1,250,181	1,416,392
Chg srv/fines/forfeits/settle	69,781	66,367	93,629	128,298	150,176	302,022	165,999	172,326	157,939	200,590
Investment earnings	29,267	28,594	28,741	33,370	33,569	37,780	64,425	145,984	204,406	49,363
Securities lending income	-	-	8,346	6,737	6,841	4,991	2,717	4,458	1,950	2,032
Sales doc/merch/property	18,987	6,776	5,828	8,211	6,884	9,658	7,938	15,571	13,104	18,022
Rentals/leases/royalties	180	220	212	210	420	487	587	24,438	28,324	31,687
Contributions/premiums	3,773	4,165	4,211	4,414	4,451	5,301	6,142	6,094	6,933	7,608
Grants/contracts/donations	8,448	9,232	7,759	10,813	12,306	13,961	17,170	20,864	24,560	22,868
Federal	714,629	880,300	853,051	903,877	970,943	1,078,455	1,206,522	1,339,851	1,454,165	1,480,812
Federal indir cost rcvry	2,602	1,685	1,937	1,916	1,922	2,091	1,958	2,761	33,883	37,822
Other revenues	1,135	1,552	972	1,491	5,230	2,646	2,685	4,459	24,044	6,412
Total revenues	\$2,035,440	\$2,106,808	\$2,159,287	\$2,336,950	\$2,502,299	\$2,827,796	\$2,936,278	\$3,168,909	\$3,410,100	\$3,514,220

Source: Statewide Accounting, Budgeting, and Human Resource System

EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES

For the Last Ten Fiscal Years
(expressed in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General government	\$ 140,573	\$ 71,699	\$ 81,646	\$ 125,612	\$ 135,083	\$ 154,332	\$ 226,764	\$ 228,772	\$ 239,707	\$ 252,486
Public safety/corrections	118,668	119,221	128,247	177,320	186,840	203,793	214,407	189,507	189,302	208,593
Transportation	297,708	322,142	325,182	332,626	381,684	442,211	416,837	440,172	510,866	529,555
Health/social services	673,330	770,506	788,429	811,041	837,669	889,480	990,989	1,079,303	1,018,333	1,114,064
Education/cultural	491,544	551,604	555,610	594,972	590,859	622,105	657,034	861,034	894,591	898,988
Resource/recreation/envirom	93,309	69,264	92,972	90,229	98,417	87,143	147,371	111,388	184,359	250,590
Economic dev/assistance	100,448	106,792	105,752	110,439	120,476	123,903	133,280	163,895	168,007	144,381
Debt service:										
Principal retirement	67,459	42,921	24,027	25,398	37,074	31,961	34,161	36,758	39,002	25,217
Interest/fiscal charges	18,932	18,039	15,010	18,483	21,227	17,380	17,937	19,780	18,166	14,812
Capital outlay	71,723	57,020	70,182	68,714	74,007	76,386	72,375	65,056	63,073	60,310
Securities lending	-	-	7,887	6,542	6,477	4,795	2,629	3,936	1,734	1,784
Total expenditures	\$2,073,694	\$2,129,208	\$2,194,944	\$2,361,376	\$2,489,813	\$2,653,489	\$2,913,784	\$3,199,601	\$3,327,140	\$3,500,780

Source: Statewide Accounting, Budgeting, and Human Resource System

PROPERTY TAX LEVIES AND COLLECTIONS (1)

For the Last Ten Fiscal Years
(expressed in thousands)

Fiscal Year	Total Tax Levy (a)	Total Tax Collections (b)	Percent of Total Tax Collections to Tax Levy
1995	\$186,648	\$218,614	117.1%
1996	193,423	218,398	112.9
1997	195,993	222,858	113.7
1998	200,432	216,204	107.9
1999	201,789	216,593	107.3
2000	201,300	215,368	107.0
2001	177,052	200,393	113.2
2002	172,733	180,370	104.4
2003	174,884	181,944	104.0
2004	182,249	176,450	96.8

Note: (1) Property taxes are levied in one fiscal year and collected in subsequent fiscal years (i.e., the fiscal year column relates to the column "Total Tax Collections" only).

Source: (a) Montana Department of Revenue Reports to the Legislature
(b) Statewide Accounting, Budgeting, and Human Resource System

TAXABLE AND MARKET (ASSESSED) VALUE OF PROPERTY (1)

For the Last Ten Tax Years
(expressed in thousands)

Tax Year	Real Property		Personal Property		Total		Ratio of Total Taxable to Total Market (Assessed) Value
	Taxable Value	Assessed Value	Taxable Value	Assessed Value	Taxable Value	Assessed Value	
1995	\$1,512,074	\$31,712,386	\$326,263	\$4,674,861	\$1,838,337	\$36,387,247	5.1%
1996	1,567,119	32,929,317	300,500	4,791,337	1,867,619	37,720,654	5.0
1997	1,637,694	34,402,312	277,587	4,784,840	1,915,281	39,187,152	4.9
1998	1,680,207	35,543,519	261,813	5,018,523	1,942,020	40,562,042	4.8
1999	1,631,973	35,199,114	267,100	5,216,726	1,899,073	40,415,840	4.7
2000	1,516,441	37,078,015	163,299	5,354,446	1,679,740	42,432,461	4.0
2001	1,534,067	38,785,826	164,136	5,481,442	1,698,203	44,267,268	3.8
2002	1,566,865	41,236,049	151,788	5,252,502	1,718,653	46,488,551	3.7
2003	1,594,262	42,589,513	142,569	4,547,764	1,736,831	47,137,277	3.7
2004	1,637,309	49,596,833	146,650	4,690,297	1,783,959	54,287,130	3.3

Note: (1) Taxable property in Montana must be assessed at 100% of its market value except for mining property and agricultural lands. Mining property is assessed based on net and gross proceeds from mineral production. The assessment on agricultural land is based on productive capacity.

The mill levy is applied against taxable value. Taxable value is calculated by using a designated percentage in Montana's Classification Act of the assessed value (e.g., the taxable value of residential property is 3.3% of assessed value for tax year 2004).

The decrease in tax year 2000 taxable value of real and personal property was due to a 50 percent reduction in the business equipment tax rate.

Numbers include revisions made by the Montana Department of Revenue for prior years.

Source: Montana Department of Revenue Reports to the Legislature

PROPERTY TAX RATES

DIRECT AND OVERLAPPING GOVERNMENTS (1)

For the Last Ten Tax Years
(per \$100 of taxable value)

Tax Year	State of Montana Special Revenue					Total
	Funds	Schools	Counties	Cities	Miscellaneous	
1994	10.44	14.74	6.86	2.87	4.48	39.39
1995	10.52	15.27	7.02	2.88	4.54	40.23
1996	10.49	15.99	7.33	3.03	4.65	41.49
1997	10.46	16.31	7.32	3.01	4.70	41.80
1998	10.39	16.57	7.29	3.10	4.91	42.26
1999	10.59	17.59	7.95	3.40	4.94	44.47
2000	10.43	18.16	8.84	3.82	5.56	46.81
2001	10.17	19.57	9.99	3.92	6.10	49.75
2002	10.18	21.80	10.60	4.23	6.13	52.94
2003	10.15	23.29	11.29	4.51	6.62	55.86

Note: (1) Numbers include revisions made by the Montana Department of Revenue for prior years.

Effective with tax year 1999, special improvement district property tax rates are reported in the miscellaneous category; previously they had been reported in the cities category. Data for prior fiscal years have been adjusted.

Source: Department of Revenue Reports to the Legislature

PROPERTY TAX MILL LEVY FOR STATE PURPOSES

For the Last Ten Tax Years

This portion of the property tax levy was developed to provide a nondiscriminatory method of financing public education in Montana. The State has statutory authority to levy up to six mills for the support of the State's higher education system. The General Fund is responsible for making up any deficiencies in the equalization system. In addition, the Legislature is directed by law to levy at each legislative session a tax of up to two mills on all taxable property in the State to provide for any deficiencies in the General Fund.

Tax Year	Higher Education System	Colleges of Technology (1)	Primary & Secondary Schools	Total Mill Levy
1995	6.00	1.50	95.00	102.50
1996	6.00	1.50	95.00	102.50
1997	6.00	1.50	95.00	102.50
1998	6.00	1.50	95.00	102.50
1999	6.00	1.50	95.00	102.50
2000	6.00	1.50	95.00	102.50
2001	6.00	1.50	95.00	102.50
2002	6.00	1.50	95.00	102.50
2003	6.00	1.50	95.00	102.50
2004	6.00	1.50	95.00	102.50

Each mill represents one dollar of tax levied on each thousand dollars worth of taxable property. The amount of property taxes needed for the year (net levy) is divided by the percentage determined collectible. This gross levy is then divided by the assessed valuation to arrive at the mill levy.

Note: (1) The Colleges of Technology mill levy is only assessed in counties where colleges are located.

Source: Montana Department of Revenue, Research and Information Division

**RATIO OF DIRECT STATE DEBT TO
ASSESSED VALUE AND DIRECT
STATE DEBT PER CAPITA**
For the Last Ten Fiscal Years

Fiscal Year	(Expressed in Thousands)			Direct State Debt Per	
	Population (1) (a)	Assessed Value (2) (b)	Direct State Debt (3)	Assessed Value	Capita
1995	877	\$36,387,247	\$78,000	0.21%	\$ 88.94
1996	886	37,720,655	69,620	0.18	78.58
1997	890	39,187,152	96,620	0.25	108.56
1998	892	40,562,042	187,005	0.46	209.65
1999	898	40,415,840	197,020	0.49	219.40
2000	902	42,432,461	228,269	0.54	253.07
2001	906	44,267,269	236,732	0.53	261.58
2002	910	46,488,552	214,135	0.46	236.61
2003	918	47,137,278	227,625	0.48	250.14
2004	N/A	49,596,833	219,645	0.44	239.26 *

N/A - Data not available

* Calculated using 2003 population data

Note: (1) Numbers include revisions made by the U.S. Department of Commerce, Bureau of Economic Analysis and the Montana Department of Revenue for prior years.
(2) Based on tax year.
(3) Includes only General Obligation Bonds.

Source: (a) U.S. Department of Commerce, Bureau of Economic Analysis
(b) Montana Department of Revenue Reports to the Legislature

**RATIO OF ANNUAL DEBT SERVICE TO
TOTAL GENERAL EXPENDITURES**
For the Last Ten Fiscal Years
(expressed in thousands)

Fiscal Year	Debt Service	General Expenditures	Ratio
1995	\$86,391	\$2,073,694	4.17%
1996	60,960	2,129,208	2.86
1997	39,037	2,194,943	1.78
1998	43,881	2,361,376	1.86
1999	58,301	2,489,813	2.34
2000	49,341	2,653,489	1.86
2001	52,098	2,913,784	1.79
2002	56,538	3,199,601	1.77
2003	57,168	3,327,140	1.72
2004	40,029	3,500,780	1.14

Source: Montana Financial Reports 1995-2004

REVENUE BOND COVERAGE
HIGHER EDUCATION

For the Last Ten Fiscal Years

(expressed in thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements	
				Total	Coverage
1994	\$50,349	\$33,768	\$16,581	\$ 6,627	2.50
1995	51,592	35,450	16,142	7,865	2.05
1996	50,315	37,357	12,958	8,931	1.45
1997	64,260	39,016	25,244	12,675	1.99
1998	69,054	41,011	28,043	13,573	2.07
1999	75,589	41,351	34,238	16,897	2.03
2000	76,095	44,457	31,638	16,692	1.90
2001	78,732	46,540	32,192	16,784	1.92
2002	81,531	50,426	31,105	17,302	1.80
2003	87,238	53,263	33,975	17,287	1.97

Source: Annual audit reports for each Higher Education Unit

REVENUE BOND COVERAGE
HOUSING AUTHORITY

For the Last Ten Fiscal Years

(expressed in thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements	
				Total	Coverage
1995	\$38,971	\$2,128	\$36,843	31,511	1.17
1996	39,504	2,414	37,090	32,379	1.15
1997	39,926	2,572	37,354	32,814	1.14
1998	44,782	2,754	42,028	34,100	1.23
1999	40,858	2,985	37,873	35,167	1.08
2000	44,875	3,420	41,455	36,581	1.13
2001	53,461	3,663	49,798	41,430	1.20
2002	53,157	4,070	49,087	42,275	1.16
2003	53,081	4,114	48,967	41,206	1.19
2004	42,780	4,059	38,721	36,898	1.05

Source: Statewide Accounting, Budgeting, and Human Resource System

REVENUE BOND COVERAGE
ECONOMIC DEVELOPMENT BONDS
 For the Last Ten Fiscal Years
 (expressed in thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements	
				Total	Coverage
1995	\$3,107	\$172	\$2,935	\$2,940	1.00
1996	3,323	195	3,128	2,860	1.09
1997	3,064	174	2,890	2,477	1.17
1998	3,595	203	3,392	2,953	1.15
1999	3,927	221	3,706	2,883	1.29
2000	4,229	326	3,903	3,183	1.23
2001	4,814	469	4,345	3,871	1.12
2002	3,481	330	3,151	2,919	1.08
2003	2,954	327	2,627	2,097	1.25
2004	2,252	303	1,949	1,892	1.03

Source: Statewide Accounting, Budgeting, and Human Resource System

CONSTRUCTION AND BANK DEPOSITS

For the Last Ten Calendar Years

(expressed in thousands, except for number of permits)

Calendar Year	Construction (1) (a)				
	Residential		Commercial		
	Number of Permits Issued	Valuation (2)	Number of Permits Issued (2)	Cost of Construction (2)	Bank Deposits (3) (b)
1994	8,313	\$232,816	1,699	\$163,141	\$ 8,911,559
1995	7,396	224,309	N/A	N/A	9,056,329
1996	7,197	209,238	N/A	N/A	9,586,233
1997	6,622	204,551	N/A	N/A	10,024,966
1998	6,745	N/A	N/A	N/A	10,618,040
1999	7,402	N/A	N/A	N/A	11,025,460
2000	6,532	N/A	N/A	N/A	11,548,844
2001	6,904	N/A	N/A	N/A	12,565,827
2002	7,493	N/A	N/A	N/A	13,419,519
2003	7,879	N/A	N/A	N/A	14,707,968

- Note: (1) Numbers include revisions made by the U.S. Department of Commerce, Bureau of Economic Analysis for prior years shown. Construction data is reported on a calendar year basis.
- (2) N/A - Data not available: no longer gathered and reported due to budget constraints.
- (3) Bank deposits are the aggregate of State Banks and Trust Companies, National Banks, Savings and Loans, and Credit Unions.

- Source: (a) U.S. Department of Commerce - Bureau of the Census
- (b) Montana Department of Commerce - State Banks and Trust Companies, National Banks, and Credit Unions
Federal Deposit Insurance Corporation and the Office of Thrift Supervision

PROPERTY (ASSESSED) VALUES (1)

For the Last Ten Tax Years

(expressed in thousands)

Tax Year	Agriculture	Commercial/ Industrial	Personal/ Real	Utilities	Other (2)	Total
1995	\$4,414,591	\$5,830,273	\$20,944,164	\$4,886,362	\$311,857	\$36,387,247
1996	4,523,548	6,032,812	21,541,079	5,212,178	411,037	37,720,654
1997	4,546,414	6,306,477	22,436,871	5,589,074	308,316	39,187,152
1998	4,573,340	6,593,141	23,382,144	5,713,097	300,320	40,562,042
1999	4,873,002	6,651,311	22,767,150	5,821,297	303,080	40,415,840
2000	5,197,931	7,022,437	23,712,872	6,212,009	287,212	42,432,461
2001	5,524,241	7,465,295	24,867,646	6,035,077	375,009	44,267,268
2002	5,865,070	7,941,480	26,241,641	6,076,025	364,335	46,488,551
2003	5,856,283	8,214,306	26,857,318	5,908,375	300,996	47,137,278
2004	5,951,107	8,746,131	28,478,728	5,955,669	465,196	49,596,831

- Note: (1) Nontaxable property value information is not available.
- (2) Other property includes mining and miscellaneous.

Source: Montana Department of Revenue Reports to the Legislature

INCOME DATA

For the Last Ten Calendar Years

Total Personal Income (1) (Millions)

Year	Montana		Rocky Mountain Region (2)		United States	
	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase
1994	\$15,499		\$167,291		\$5,878,362	
1995	16,297	5.1%	179,684	7.4%	6,192,235	5.3%
1996	16,992	4.3	192,141	6.9	6,538,103	5.6
1997	17,726	4.3	206,847	7.7	6,928,545	6.0
1998	18,942	6.9	223,322	8.0	7,418,497	7.1
1999	19,405	2.4	238,547	6.8	7,779,521	4.9
2000	20,744	6.9	261,286	9.5	8,398,871	8.0
2001	22,281	7.4	279,475	7.0	8,718,165	3.8
2002	22,526	1.1	283,224	1.3	8,868,261	1.7
2003	23,651	5.0	291,133	2.8	9,148,680	3.2
Average Annual Rate of Growth		4.82%		6.38%		5.07%

Per Capita Income (1)

Year	Montana		Rocky Mountain Region (2)		United States	
	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase
1994	\$17,995		\$ 20,473		\$22,340	
1995	18,592	3.3%	21,442	4.7%	23,255	4.1%
1996	19,173	3.1	22,432	4.6	24,270	4.4
1997	19,920	3.9	23,651	5.4	25,412	4.7
1998	21,225	6.6	25,041	5.9	26,893	5.8
1999	21,621	1.9	26,230	4.7	27,880	3.7
2000	22,961	6.2	28,194	7.5	29,760	6.7
2001	24,594	7.1	29,639	5.1	30,580	2.8
2002	24,744	0.6	29,588	-0.2	30,765	0.7
2003	25,775	4.2	30,053	1.6	31,459	2.2
Average Annual Rate of Growth		4.1%		4.37%		3.9%

Note: (1) Numbers include revisions made by the U.S. Department of Commerce, Bureau of Economic Analysis for prior years.

(2) The Rocky Mountain Region includes Montana, Colorado, Idaho, Utah, and Wyoming. United States includes the 50 states and the District of Columbia.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

PUBLIC EDUCATION ENROLLMENT (1)

For the Last Ten School Years

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
TOTAL GRADES PRE-K-12 (a)	164,341	165,547	164,592	162,319	159,988	157,556	154,875	151,947	149,995	148,356
MONTANA UNIVERSITY SYSTEM (b)										
The University of Montana - Missoula	9,720	9,910	10,269	10,451	10,538	10,514	10,573	10,830	10,933	11,119
Montana State University - Bozeman	10,022	10,285	10,349	10,209	10,374	10,402	10,411	11,100	10,675	10,665
Montana Tech of The University of Montana	1,660	1,679	1,718	1,656	1,642	1,683	1,659	1,608	1,752	1,797
The University of Montana - Western	1,065	1,082	1,031	1,032	970	1,009	1,028	1,014	996	1,006
Montana State University -Billings	3,252	3,276	3,221	3,401	3,337	3,371	3,364	3,779	3,382	3,503
Montana State University - Northern	1,654	1,495	1,501	1,490	1,515	1,451	1,418	1,489	1,446	1,431
TOTAL UNIVERSITIES	27,373	27,727	28,089	28,239	28,376	28,430	28,453	29,820	29,184	29,521
COLLEGES OF TECHNOLOGY (b)										
MSU - College of Technology - Billings	414	436	462	472	507	510	474	511	580	666
MT Tech College of Technology of the U of M	320	329	363	354	334	310	285	295	232	260
MSU - College of Technology - Great Falls	686	727	714	705	745	766	834	952	1,053	1,098
The U of M - College of Technology - Helena	452	468	543	663	664	704	724	736	738	749
Missoula College of Technology of The U of M	630	629	749	794	766	776	797	802	886	895
TOTAL COLLEGES OF TECHNOLOGY	2,502	2,589	2,831	2,988	3,016	3,066	3,114	3,296	3,489	3,668

Note: (1) The University System and Colleges of Technology enrollment is based on fiscal full-time equivalent enrollment.

Source: (a) Montana Office of Public Instruction
(b) Montana Commissioner of Higher Education

DEMOGRAPHIC STATISTICS

For the Last Ten Fiscal Years

Fiscal Year	Population (1) (3) (a)	Per Capita Income (1) (3) (a)	Public School Enrollment Pre-K-12 (2) (b)	Montana University System Enrollment (2) (b)	Average Montana Unemployment Rate (c)	Average U.S. Unemployment Rate (c)	Average Civilian Labor Force (c)	Average Total Employment (c)	Average Unemployment (c)
1995	877,000	\$18,592	164,341	29,875	5.5%	5.6%	443,500	419,500	24,000
1996	886,000	19,173	165,547	30,316	5.3	5.3	456,600	432,900	23,700
1997	890,000	19,920	164,592	30,920	5.0	5.0	465,200	442,600	22,600
1998	892,000	21,225	162,319	31,227	5.4	4.5	470,500	445,800	24,700
1999	898,000	21,621	159,988	31,392	4.9	4.3	478,700	455,900	22,800
2000	902,000	22,961	157,556	31,496	4.8	4.0	488,000	466,000	22,000
2001	906,000	24,594	154,875	31,567	4.3	4.5	481,500	462,000	19,500
2002	910,000	24,744	151,947	33,116	4.6	5.9	480,000	459,800	20,300
2003	918,000	25,775	149,995	32,673	4.7	6.4	484,100	463,100	21,000
2004	N/A	N/A	148,356	33,189	4.8	5.6	489,200	466,600	22,600

N/A - Data not available

- Note: (1) Based on calendar year.
(2) Based on academic year - includes public schools (pre-K-12) and State-owned universities and colleges.
(3) Numbers include revisions made by U.S. Department of Commerce, Bureau of Economic Analysis for prior years.

- Source: (a) U.S. Department of Commerce, Bureau of Economic Analysis
(b) Montana Office of Public Instruction, Public Schools,
Montana Commissioner of Higher Education, Universities and Colleges
(c) Montana Department of Labor and Industry, Research Bureau

ANNUAL AVERAGE NONAGRICULTURAL EMPLOYMENT BY SELECTED INDUSTRIES (1)

For the Last Ten Calendar Years (Not Seasonally Adjusted)
(thousands of persons)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Natural Resources & Mining	6.8	6.4	6.4	6.3	6.1	6.1	6.0	6.2	6.2	6.0
Construction	15.3	16.4	17.6	18.3	19.3	20.0	20.4	21.2	21.7	23.1
Durable Goods	13.1	13.8	14.3	14.4	14.6	15.1	15.2	14.4	13.1	12.1
Non-Durable Goods	7.5	7.4	7.6	7.7	7.4	7.4	7.2	7.0	6.9	6.9
Wholesale Trade	14.7	15.0	15.1	15.3	15.6	15.8	15.6	15.4	15.3	15.4
Retail Trade	47.7	49.7	51.2	51.6	52.8	53.2	53.8	53.5	53.6	53.6
Transportation & Utilities	16.3	16.7	16.4	16.4	16.7	16.8	16.8	16.2	15.9	15.4
Information	6.3	6.5	6.7	7.1	7.4	7.8	7.9	7.9	7.8	7.6
Financial Activities	16.0	16.1	16.6	17.1	17.6	18.1	18.5	18.8	19.3	20.3
Professional & Business Svcs	21.2	23.3	25.3	25.7	26.7	28.6	30.8	31.8	32.3	32.8
Educational & Health Services	41.3	42.6	44.0	44.9	46.1	47.7	49.0	49.7	52.0	53.2
Leisure & Hospitality	44.1	46.0	47.8	47.9	48.7	49.1	50.1	49.4	51.0	52.2
Other Services	13.0	13.3	13.9	14.2	14.7	15.1	15.3	16.0	16.1	16.0
Federal Government	13.6	13.2	12.8	12.6	12.7	12.7	13.4	13.4	13.8	13.9
State Government	22.4	22.3	22.7	23.1	23.4	23.8	24.2	23.9	24.3	24.7
Local Government	40.3	41.2	41.3	41.6	42.3	42.2	42.6	46.8	46.8	47.0
Total Employment	339.6	349.9	359.7	364.2	372.1	379.5	386.8	391.6	396.1	400.2

- Note: (1) Effective in 2002, industry categories have been changed due to reporting changes implemented by the U.S. Department of Labor.
Data for prior years has been revised.

Source: U.S. Department of Labor, Bureau of Labor Statistics

MAJOR PRIVATE EMPLOYERS IN MONTANA (1)

(listed alphabetically)

- (1) Albertsons (retail trade services)
- (2) Benefis Healthcare (hospital services)
- (3) Better Business Systems (business consultants)
- (4) Deaconess Billings Clinic Health System (hospital/other health services)
- (5) First Interstate Bank (banking)
- (6) St. Patrick Hospital (hospital services)
- (7) St. Vincent Hospital (hospital services)
- (8) Stillwater Mining (mining)
- (9) Town Pump (retail trade services)
- (10) Wal-Mart Stores Incorporated (retail trade services)

Note: (1) The three largest Montana employers are public: Montana State Government (20,797 employees), Montana Local Government units (44,586 employees) and the U.S. Government (14,020 employees). Information based on 2003 data.

Source: Montana Department of Labor and Industry

(The Treasure State)

"Big Sky Country"

MISCELLANEOUS STATISTICS

June 30, 2004

Date of Statehood (a)	November 8, 1889 - 41st state
Form of Government (b)	Legislative-Executive-Judicial
Land Area - 4th largest state (a)	145,552 square miles (3)
Population Density (based on 2000 population) (c)	6.2 persons per square mile
Miles of Paved Public Roads (d)	19,348
Public Higher Education (e):	
Colleges and Universities	6
Colleges of Technology	5
Recreation (f):	
Number of State Parks	43
Number of Managed Sites (camping/fishing)	362
Number of National Park System Units	6
State Employees (full-time equivalent) (1) (g)	20,022

Note: (1) Effective with fiscal year 2004, number of state employees includes all public higher education employees, regardless of funding source.

Source: (a) Montana Facts (Travel Montana website)
(b) Montana Code Annotated
(c) U.S. Department of Commerce, Bureau of the Census
(d) Montana Department of Transportation
(e) Montana Commissioner of Higher Education
(f) Montana Department of Fish, Wildlife & Parks
(g) State of Montana Office of Budget and Program Planning, Montana Commissioner of Higher Education



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